# EXHIBIT E

# Autonomy Corporation plc

## Annual Report and Accounts

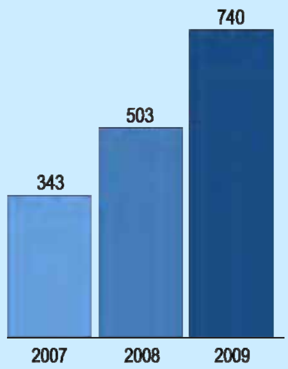
For the year ended 31 December 2009

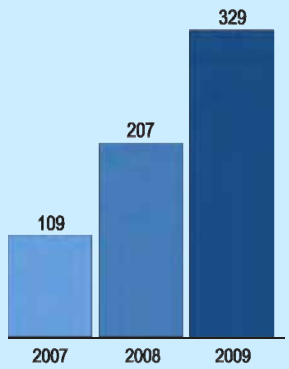
Registered Number: 03175909

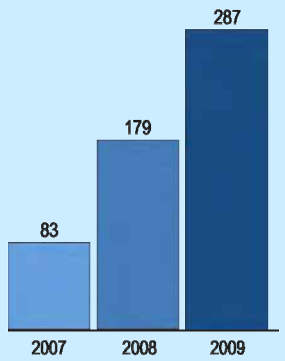
Autonomy

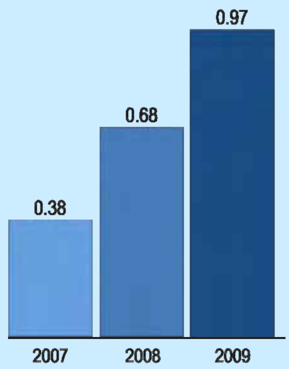
# Performance at a Glance

| Revenue ($m) | Profit from Ops. (adj.) ($m) | Cash Generated from Ops. ($m) | Diluted EPS (adj.) ($) |
|---|---|---|---|
| $740m | $329m | $287m | $0.97 |
| +47% growth | +59% growth | +60% growth | +42% growth |




| 2009 Highlights | Recent Operating Highlights |
|---|---|
| ▪ Revenue growth of 47% | ▪ Revenue CAGR of 63% over last five years |
| ▪ Operating profit (adj.) growth of 59% | ▪ Share price at five year high |
| ▪ Net profit (adj.) growth of 57% | ▪ Fully diluted EPS (adj.) CAGR of 73% over 5 years |
| ▪ Launch of IDOL SPE, Arcpliance, ICE, IDOL Social Media and Interwoven product range built on IDOL | ▪ "Biggest Contribution to Business Technology," UK IT Industry Awards 2009 |
| ▪ Fully-diluted EPS (adj.) growth of 42% (IFRS: 31%) | ▪ Amongst Highest Operating Margins in the FTSE100 at c. 45% |
| ▪ R&D investment up 26% | ▪ 900% share price growth over last five years |
| ▪ Cash generated from operations of $287 million (2008: $179 million) | ▪ Acknowledged as "the leader in cloud computing" and the "hottest enterprise software company" |
| ▪ Cash balance of $243 million at year end and no net debt | ▪ 27 consecutive quarters of year-on-year revenue growth |
| ▪ Record full year operating margins (adj.) at 44% | ▪ Best performing FTSE 100 stock since 2004 |
| ▪ Acquired Interwoven, Inc. | ▪ Britain's Most Admired Software Company Award |
| ▪ Winner of Her Majesty the Queen's Award for Enterprise 2009 | ▪ Cemented position as industry leader, with the largest market share and fastest growth |

Autonomy, a global leader in infrastructure software for the enterprise, is spearheading the Meaning Based Computing movement. Autonomy's technology allows computers to harness the full richness of human information, forming a conceptual and contextual understanding of any piece of electronic data, including unstructured information, such as text, email, web pages, voice or video. Autonomy's software powers the full spectrum of mission-critical enterprise applications including pan-enterprise search, customer interaction solutions, information governance, end-to-end eDiscovery, records management, archiving, business process management, web content management, web optimization, rich media management and video and audio analysis.

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# Chairman's Statement

"Autonomy takes nothing for granted, but its management team is knowledgeable and has strength in depth; the employees are motivated and the product is world class. It is on this footing that we approach 2010."

"Autonomy was founded in Cambridge in 1996, and is a real success story. Its core Intelligent Data Operating Layer (IDOL) technology continues to be the software solution of choice for more than 20,000 valuable customers in nearly every country in the world.

As the company share price has risen (more than 900% over the last five years) and as its profits have grown, so has the attention paid to it by a world outside the software realm. This is only to be expected for a company which has been the best performing FTSE stock since 2004, and one with gross profit margins of about 90% and operating profit margins of about 45%.

When I became Chairman a few months ago in May 2009, it was in recognition by the Board of the need to conserve such a successful formula but also to make some changes to reflect the high profile which such success must rightly attract. The Board is in the course of appointing two new, independent non-executive directors, one with extensive financial and management expertise and the other with the academic background necessary to understand, and enjoy, the mathematical formulae on which the success of Autonomy's IDOL infrastructure and its satellite brands are based. The Board has also altered the Remuneration Policy. Autonomy operates in the realm of pure software, where precise UK-based comparators are difficult to find. Although only two executives are materially affected, the company has the lowest paid management team in the FTSE 100, despite the top level performance. At the same time we are putting great efforts into increasing, as this Annual Report will itself demonstrate, the level of narrative and general disclosure given by the company.

The business model is essentially simple, as is the structure of the company. It generates, partly because of that simplicity, higher levels of profitability and cash conversion than many of the world's largest technology companies.

Autonomy is a young company, and the young face the future with confidence. Dr. Mike Lynch, the CEO, was named 'Entrepreneur of the Year' in 2009. He and the management team are to be congratulated on 27 consecutive quarters of year-on-year revenue growth, an unbroken history of profitability going back to the turn of the millennium, and on the success of the company to date.

Autonomy takes nothing for granted, but its management team is knowledgeable and has strength in depth; the employees are motivated and the product is world class. It is on this footing that we approach 2010.

On behalf of the Board, I would like to thank everyone at Autonomy for their tremendous efforts during the past year. The strength of Autonomy's success can be seen in its people, all of whom have had to deal with difficult markets and new challenges over the past year, and have delivered very well on behalf of our shareholders."

Robert Webb

Robert S. Webb QC
Chairman
22 February 2010

# Chief Executive's Review

"Once again in 2009 Autonomy stood amongst the proud few as having excelled in an otherwise tumultuous year for the global economy and the software industry. We begin 2010 with the strongest Meaning Based Computing portfolio in the industry and an ever-expanding understanding in the market of the challenges associated with unstructured information. With our unmatched product portfolio, scale and vision, we look forward to the challenges to be presented in 2010 regardless of the environment."

**Dear Autonomy Investor,**

"Once again in 2009 Autonomy stood amongst the proud few as having excelled in an otherwise tumultuous year for the global economy and the software industry. Whilst always keeping a close eye on the market situation, we continued to move boldly to consolidate our acknowledged industry leadership, enhance our customer offerings and invest in key technologies for the future. As in years past, I take great pleasure in presenting to you these results from a remarkable year during which your company has reached new heights.

Over the last five years, Autonomy has been one of the best performing software companies in the world, despite the turbulent economy. During that time we have seen a five year adjusted EPS CAGR of 73% and Autonomy has grown to become one of Europe's largest software companies.

## 2009 and Into the Future

Looking back on 2009, despite an economic environment that can be described at best as difficult, Autonomy produced outstanding results with adjusted profit from operations growing by 59% at a time when most of our software peers have seen small or negative growth. We delivered this strong growth on top of an exceptionally strong performance in Q4 2008.

During 2009 Autonomy did a lot of work to prepare for a possible upturn in 2010, including significant new IDOL product developments, launches and expansion of our IDOL hosted capabilities. The driver for our business is the need for computers to understand and process human friendly information automatically. But although Autonomy has benefited from increased regulation in the market, this is only one of our pillars of growth. Our business model and growth opportunity is based on three very different, and possibly out-of-phase, cycles: the need to protect, promote and power the enterprise. Over time we would expect these to collapse into a single driver, but at present they should be thought of as separate.

**Protect** - Following the 2006 amendments to the U.S. Federal Rules of Civil Procedure (FRCP) organisations are required to make all relevant Electronically Stored Information (ESI) accessible to the courts as part of legal proceedings within a period of 99 days. The sanctions for failure to comply include crippling fines and incarceration for executives. This has incredibly far reaching consequences for organisations that formerly relied on manual discovery processes, which took years to complete. Following the FRCP, around fifty new regulations have been proposed in an attempt to tighten up credit markets and promote sound corporate governance.

**Promote** - Promote is focused around our Meaning Based Marketing (MBM) solutions suite. Much of the retail value chain that has disappeared from the high street is likely to come back online, as organisations look to extend their cost savings and switch to more efficient business models following the economic downturn. Consequently, this area will benefit from the increase in spend as organisations leverage their on-line business model.

**Power** - Power is what has traditionally been our core business and is the critical infrastructure that enables any type of organisation to manage and process all of its data, independently of where it is stored or created (structured, unstructured and semi-structured). This shift is on a 15 year cycle, and we would expect the other two pillars of growth eventually to be subsumed into this category, as CIOs realise that there is a fundamental challenge behind all their information infrastructure: the need to process information automatically.
These are the strengths that have driven our business throughout 2009, and will carry the company into the future. We believe the fundamental

# Chief Executive's Review

drivers will continue to accelerate, and as customers find discretionary budgets again we expect to see good growth in the Meaning Based Marketing ('Promote') applications of our technology alongside our resilient Information Governance ('Protect') applications.

Our growth and expansion has always been driven by the goal of establishing Autonomy as the key infrastructure for the automated handling of all forms of unstructured information such as text, audio and video. Following this unwavering goal we have achieved sales success and proven our profitable business model, and have created a special software company which is leading the market.

## Financial Highlights

In 2009 we again produced record results in every area, which enabled us to grow, invest and acquire for the future. In 2009, all key financial metrics again rose from our previous records in 2008. 2009 financial achievements included:

- Record revenues of $740 million, up 47% from 2008 including strong organic growth of 16% (see page 13) and the successful integration of Interwoven
- Gross profits (adj.) at $652 million, up 42% from 2008; gross margins (adj.) at 88%
- Record full year operating margins (adj.) at 44% (2008: 41%)
- Record fully diluted EPS (adj.) of $0.97, up 42% from 2008 (IFRS: $0.80, up 31%)
- One of the highest revenue to cash conversion ratios in the industry
- Record profit from operations (adj.) at $329 million, up 59%
- Record profit before tax (adj.) at $323 million, up 55% from 2008
- R&D investment up 26% year-on-year
- Positive cash flow generated by operations of $287 million, up 60%
- Cash balances at $243 million and net cash of $45 million

Once again, 2009 saw an unprecedented number of multi-million dollar contracts and continued year-on-year growth, and some of the largest deals in the company's history.

## Operational Highlights

Our strong R&D investment, including an increase in R&D spend in 2009 of 26%, continues to bear fruit.

We have extended our technologies from the unstructured world to the structured. 2009 saw the launch of Autonomy's revolutionary IDOL SPE, bringing the power of IDOL to structured data and ushering the $18 billion database market into the era of Meaning Based Computing. At the end of the year we saw validation of this endeavour with the first IDOL SPE customers signed and first showcase events.

Other developments of Autonomy's industry-leading IDOL technology during 2009 included:

- Successful launch of ICE, IDOL Social Media and Interwoven product range built on IDOL
- The industry's first "Collection to the Cloud" service for eDiscovery and compliance
- New archiving appliance Autonomy's Arcpliance, for organizations seeking a simplified yet scalable solution to regulatory challenges
- New capabilities in Autonomy iManage to cater for updated Federal Data Privacy requirements under the HIPAA
- Autonomy Records Management solutions achieving renewed US DoD 5015.2 certification

2009 brought continued enterprise-wide adoption and broader understanding of the Meaning Based Computing approach, with sustained demand from customers despite the wider economic turmoil. The fundamental shift to unstructured information continues apace, and there is growing recognition that automation and processing are the only viable business strategy. During the year, the three distinct and compelling drivers for our business discussed above became evident as customers deployed Autonomy's technology across applications to protect, promote and power the enterprise.

While many enterprise software vendors suffered from the deteriorating macroeconomic environment, Autonomy's strong financial performance demonstrated the benefits of our unique software-driven business model. This was also a year of investment as we laid the ground for major new IDOL-based products and began to equip the company for the eventual upturn to the global economy.

We saw growth across the globe during the year, in virtually every geographic and vertical market we serve. We continue to win marquee customers in emerging economies across Asia, Eastern Europe and Latin America.

Throughout 2009 Autonomy was recognized by industry analysts as the unmatched market leader. Accolades included:

- Forrester ranked Autonomy No. 1 for ECM strategy and product direction, and leader in records management
- Gartner ranked Autonomy as leader in its 2009 Information Access Magic Quadrant
- IDC identified Autonomy as the fastest growing of the top three Search and Discovery software vendors with the largest market share by far
- Awarded highest possible rating in the December 2009 Gartner MarketScope for eDiscovery
- Ovum hailed IDOL SPE as exactly the sort of disruptive technology organisations need to overcome the recession
- Autonomy was ranked "Top Player" in the Radicati hosted email archiving Market Quadrant, 2009

Other industry awards during 2009 included:

- Presented with Her Majesty the Queen's Award for Enterprise 2009
- Voted Britain's Most Admired Software Company Award 2009
- Acknowledged as having the world's largest private cloud infrastructure
- Described by Information Week as: "the world's hottest enterprise software company"
- Received 2009 Editor's Choice Award from Intelligent Enterprise
- Named "Technology Provider of the Year" at the British Legal Awards
- Lauded as the "Biggest Contribution to Business Technology" at the UK IT Industry Awards 2009

The business value of Autonomy's infrastructure technology and its demonstrable ROI are ultimately borne out by our average selling price for meaning-based technologies, which remained stable throughout 2009 at approximately $403,000.

# Chief Executive's Review

## Acquisitions

We executed successfully on the acquisition of Interwoven, with a rapid and successful integration, resulting in a step-change in the industry with the advent of both Meaning Based Marketing and Information Governance driven by meaning. Autonomy Interwoven has been recognized with multiple awards for its new technological accomplishments including:

- Receiving the "Best Innovation Award" for Autonomy's ground-breaking Meaning Based Marketing solutions portfolio
- Gartner rated Autonomy Interwoven fastest growing out of top four electronic content management vendors
- Forrester ranked Autonomy Interwoven number one for electronic content management strategy and product direction

## Shareholder Return

2009's record results were reflected in Autonomy's share price, up 58% during 2009, and up nearly 900% during the past five years. Our performance during this period, whilst retaining one of the most dedicated and modestly compensated management teams, has delivered significant returns for shareholders.

## Trends

2009 was a year of tremendous upheaval and change, coupled with optimism building at year end. As in 2008, global events laid bare the fundamental change of the IT world to the usage of unstructured information, the very essence of what drives Autonomy. The net result is the continuing convergence of legal and operational information systems and the continued understanding of the need to manage based on "meaning".

In terms of broader industry trends, we continue to see our strongest growth in the new models of the software industry such as OEM and cloud computing. Whilst it may still take a little time for people to understand how these models differ from traditional software businesses, we believe the momentum in these areas is accelerating.

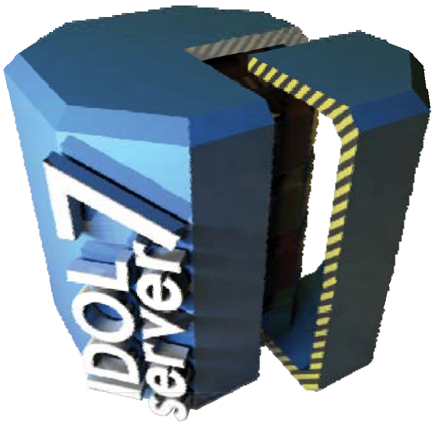
We began 2010 with the strongest Meaning Based Computing portfolio in the industry and an ever-expanding understanding in the market of the challenges associated with unstructured information. With our unmatched product portfolio, scale and vision, we look forward to the challenges to be presented in 2010 regardless of the environment. At the very end of Q4 2009 we began to see some indicators of an initial improvement in the macro environment, which gives us confidence in the outlook for 2010, and accordingly we are adjusting our business plan.

I take this opportunity to thank once again our customers, shareholders, employees and partners for their continued support."

Dr. Michael R. Lynch
Chief Executive Officer and Co-Founder
22 February 2010

# Business Overview

This section explains how Autonomy operates, including our vision, the nature of our IDOL technology, a description of our customer base, through to our markets and business model.




## An Introduction to Autonomy

Founded in 1996 with a unique combination of technologies borne out of research at Cambridge University, Autonomy has experienced a meteoric rise. The company currently has a market capitalization in the range of $6 billion, is one of the three largest software companies in Europe and has offices worldwide. Autonomy is a global leader in infrastructure software for the enterprise that helps organizations to derive meaning and value from their business information whether unstructured, semi-structured or structured, as well as mitigate the risks associated with those same assets.

Autonomy's position as the market leader is widely recognized by leading industry analysts including Gartner, Forrester Research, IDC and Ovum.

## Autonomy's Vision

Think back to the late 1960s when computers first started to be used for business. At that time computers were far too basic to understand the rich forms of information that human beings exchange every day. So the solution was to take human friendly information and distil it into a much simpler form – the rows and columns of a database. So if a person lives at "3 Acacia Avenue" that information is entered into the particular row and column of the database that is for the first line of the address. The information is structured so that its position tells the computer what it means. So the computer could then identify, for example, that column three, row four was the amount of inventory in the warehouse, and when that number went close to zero it could automatically issue a purchase order to replenish the warehouse. It had automated a business process, and replaced a human being who would have had to do the job manually.

This was the birth of the modern IT industry. Today, behind every piece of enterprise software there is a database. It might be software to administer a hospital or a CRM system – all have a database at their core, and then usually a tailored interface to make different operations possible depending on the use case.

But what if computers could actually understand information in its rich, unstructured form, and automatically do useful things with it?

Autonomy's vision is to enable computers to be able to process human friendly, unstructured information such as emails, voice messages and videos, based on its meaning. So the computer can watch emails being sent within a bank and identify those that mean there is a compliance problem. Or listen to calls in a contact centre and identify a number of calls all about the same product issue, perhaps an exploding battery, and alert a supervisor. Autonomy does for unstructured information what the database is capable of doing for structured information.

The fundamental idea is simple: computers should map to our human world and solve our problems, rather than the other way around. This is the biggest change in the IT industry to date, because it is the first real change to the "I" – the information, unlike the many recent changes to the "T" – the technology, such as the shift to the client server model, or cloud computing. As a result, Autonomy's technology is applicable to every area of IT, and is consistently rated the leader across analyst reports in many areas of software from enterprise search to eDiscovery, and through our OEMs even in areas where Autonomy does not itself compete, such as content leak prevention.

We call this phenomenon "Meaning Based Computing" (MBC).

## Meaning Based Computing (MBC)

When computers "understand" information, they can start to process it automatically and begin to bring information to the user rather than the other way round. For example, by forming an understanding, computers can automatically create taxonomies, alert users to new and relevant information in real-time or automatically profile an individual's interests based on what they read and write, offering them interesting information without the need to search, or introductions to helpful experts and similar people. Autonomy's technology is able to cluster information, identifying inherent themes or clusters of conceptually similar information. In addition, using this approach it is possible to detect irregularities in everyday scenes for security purposes, identify well-known speakers in broadcast media and analyze conversations to detect positive or negative sentiment. The possibilities are virtually limitless.

# Business Overview

MBC addresses the full range of information challenges and consequently forms the central requirement of major enterprise deployments all over the world. Industry Analysts estimate that only around 20% of enterprise information is of the structured type that is held in a database. The remaining 80% is in human friendly forms such as email, telephone conversations and video, which cannot easily be put into a database. If you reflect on your working day, and consider the number of times you interact with structured data, such as a list of customers, or sales data, and the number of times you send an email or pick up the phone, you will find this to be right intuitively.


## Customers

An extensive range of blue chip customers and public sector agencies from around the world use Autonomy's horizontal technology, relying on multiple elements of our core IDOL technology for use across their global platforms.

**Media organizations** such as the BBC, ITN, MTV, Bloomberg, CNN, Reuters, HBO, Forbes, the Press Association and France 2 use Autonomy's award-winning technology to reduce production costs, keep journalists abreast of new developments, publish and deliver large amounts of rich media content, archive disparate sources of content for reuse or sale, drive traffic acquisition, provide browsers with a first-class user experience, and increase advertising revenue.

**eCommerce providers** such as BrassRing, Callaway Golf, FedEx, Forbes, GCI Commerce, JobTarget, Louis Vuitton, Safeway, Schneider Electric, The McGraw-Hill Companies and T-Mobile employ Autonomy's revolutionary technology to boost conversion rates, promote cross and up-selling, simplify the management of special offers, increase average order size, obtain a snapshot of patterns in buyers' behaviour in real-time, provide customers with a tailor-made online experience, build customer loyalty and monitor customer satisfaction.

**Telecommunications providers** such as AT&T, Ericsson, Cable and Wireless, BT, Telecom Italia, 3, Verizon, Vodafone, MCI and Sonera have deployed Autonomy to help decrease operating costs and simultaneously improve the quality and scope of services available to customers.

**Food and Beverage** customers including Kraft, Nestlé, Coca-Cola and Britvic use Autonomy to stay up-to-date with the latest product developments and opportunities in the market to bring exciting products to consumers.

**Finance and Banking professionals** make numerous critical business decisions in the course of a normal day. Ten of the top ten global banks rely on Autonomy with customers that include Citi, Barclays, Bank of America, RBS, Lloyds TSB, Deutsche Bank, Merrill Lynch, Grupo Santander, Credit Lyonnais, Credit Suisse and Danske Bank to stay abreast of changing customer expectations and increasingly complex regulatory policies.

**Pharmaceutical** customers such as AstraZeneca, Bristol Myers Squibb, GlaxoSmithKline, Novartis and Pfizer use Autonomy to increase collaboration and decrease product development cycles as well as keep pace with changing regulations, demographic information and general research and development.

**Government and public sector agencies** throughout the world such as the U.S. Securities and Exchange Commission, U.S. State Department, U.S. Department of Justice, U.S. Department of Commerce, U.S. Department of Labor, U.S. Department of Education, UK Houses of Parliament, the British Tourist Authority and the UK Department of Trade and Industry use Autonomy to connect people and resources.

**Intelligence and Defence organizations** across the world use Autonomy to protect against security threats. Worldwide customers include the U.S. Department of Homeland Security, U.S. Department of Defence, French MOD, Italian Ministry of Interior, Swedish Defence, Romanian Security, Spanish MOD, British MOD and the National Nuclear Security Administration.

**Legal organizations**, including 75 of the top 100 global law firms, over 1,400 law firms and over half of the Fortune 25 have standardized on Autonomy for all of their information discovery, high precision retrieval, and litigation support. Autonomy enables customers such as White & Case, Freshfields, Pillsbury, Burges Salmon, LexisNexis, Linklaters and the UK Law Society to speed up research, facilitate collaboration and information sharing, avoid duplication of effort, improve internal communications and streamline operations.

**IT companies** such as IBM, Intel, Oracle, Sybase, BMC Software, Hewlett-Packard, Sun Microsystems, Lucent Technologies and HP/EDS have selected Autonomy to support development and accelerate routes to market.

**Consulting and professional services** customers such as IBM Global Services, KPMG, PriceWaterhouseCoopers, Forrester Research and McCann Erickson use Autonomy to fully harness their personnel's expertise by fostering collaborative networks and profiling interactions between people.

**Energy and utilities** customers face myriad challenges such as climate change, depleting resources and soaring numbers of expatriate workers with teams scattered throughout the world. BP, Halliburton, Entergy, Shell, Weatherford and Norsk Hydro use Autonomy to connect employees around the globe and help them maintain their competitive edge in an increasingly difficult environment.

**Manufacturers** such as Ford, General Motors, BMW, Toyota, Canon, Schneider Electric, Lafarge, Lexmark and Fiat use Autonomy's technology in order to cut costs, streamline operations and capitalize on their assets in terms of both information and expertise.

**Aerospace organizations** such as NASA, BAE Systems, the US Air Force and Boeing have selected Autonomy to maximize expertise by promoting collaboration and knowledge sharing between engineers in different parts of the world.

**Healthcare organizations** including the UK National Health Service, the UK National Patient Safety Agency and Blue Cross/Blue Shield use Autonomy to promote best practices and help protect patient safety. Autonomy provides medical professionals with the information they need to make crucial decisions on the spot.

# Business Overview

## OEMs
As part of our comprehensive OEM Program, numerous world-leading software companies embed Autonomy's award-winning technology into their software solutions. By leveraging Autonomy's technology, OEM licensees are able to address the problem of unstructured information, provide unique next-generation functionality and deliver unparalleled performance.

Autonomy is relied on by OEMs from virtually every major software sector. Autonomy's technology is currently embedded in over 400 applications addressing many markets, and Autonomy's OEM Program continues to grow at a steady rate, including new and extended agreements with Oracle, Symantec, Dassault, Tridion, Tumbleweed, Openwave, Nortel, Talisma, Verdasys and Yahoo!.

## Research & Development
As a groundbreaking company founded out of pioneering research at Cambridge University, Autonomy is proud to maintain its reputation as one of the most innovative companies in the world. Autonomy continues to focus on research and development to deliver increasingly innovative products to customers and consolidate its position as a market leader. Autonomy's commitment to R&D is evident in the company's continued investment in this area, with R&D investment increasing every year.

Autonomy owns all of the technology we offer, and hence eliminates the uncertainty of sourcing and integrating solutions from multiple vendors in a consolidating market space. No matter what changes take place in the broader market, Autonomy customers will never be left with unsupported technology or software licenses that become non-renewable. Unlike other software companies that use development resources to do bespoke customization of their products, Autonomy sells a broadly applicable, horizontal product, and consequently R&D costs do not need to grow as a percentage of revenues.

As the largest department in the group, the R&D team continues to represent the lifeblood of the company.

## Autonomy's Technology
### A Different Approach
Autonomy has developed a fundamental piece of technology that allows computers to understand the meaning of unstructured information and process it automatically. IDOL is the equivalent of the database for unstructured information. It sits behind every enterprise application and allows human friendly information to be processed.

### Fundamental Technology: 170 Patents
IDOL is built upon the seminal mathematical works of Thomas Bayes and Claude Shannon. But how does it work in simple terms?

Imagine we took today's edition of the Wall Street Journal and cut out each of the words, which we pile up in a heap on the desk. We then ask somebody wearing a blindfold to pick up the words and stick them onto a sheet of paper. The result would be a meaningless jumble of words. It is a truly random process. This tells us that the arrangement of words in the newspaper is not random, it is biased. The "idea" in the mind of the author is what biases the words and their pattern. The word "dog" is more likely to be followed by the word "walk" than by the word "fly", for example, because dogs walk they do not fly. So by studying the preponderance of one pattern over another, Autonomy's technology understands that there is X% probability that the content in question deals with a specific concept.

It also turns out that ideas that are less expected within the context of a communication tend to be more indicative of its meaning. So the word "walk" which appears several times in a news article about a man walking his dog conveys far less meaning than the word "murder", which appears just once in the same article. It is this theory that enables Autonomy's software to determine the most important (or informative) concepts within a document.

### Compelling Return on Investment (ROI)
By automating processes that relied previously on costly and tedious manual labour, Autonomy's technology generates substantial top line growth and bottom line savings. Rather than simply surfacing information for a user to process manually, Autonomy actually performs operations in real-time. As a result, many tasks that were prohibitively expensive become economically viable. For example, for a team of people to identify questionable comments in a 20 minute phone conversation that took place about six months ago we might have to sift through a thousand hours of audio. IDOL can do this in moments, but more importantly, can be applied proactively to notify the team at the time of the infraction. The value is in reducing the volume of manual labour, protecting the enterprise from unforeseen risk and generating growth by unearthing revenue opportunities. BAE Systems realized cost savings of an estimated £7 million in the first year of deployment when IDOL spotted two teams working on the same problem at different facilities. They were able to repurpose an entire team as a result.

### Legally Warranted Results
Due to the increasing regulatory burden on the enterprise, and specifically in order to comply with the Federal Rules of Civil Procedure, it is essential that the company can find and understand every document, including any metadata, without altering it in any way. In order to scale without impeding performance, if at the beginning of the process a particular result appears to be irrelevant, third party legacy products will stop indexing without taking into consideration the rest of the document. Consequently, a relevant snippet of information on the last page of a hundred-page report could be overlooked and the legal consequences could be catastrophic. IDOL is the only technology able to index every document in its entirety, and still provide millisecond response times.

## Autonomy's Products
In Autonomy's fourteen year history our fundamental aim has not changed: computers should map to our human world and solve our problems, rather than the other way around. That technology is the Intelligent Data Operating Layer (IDOL).

### IDOL Server
At the heart of Autonomy's infrastructure software lies the Intelligent Data Operating Layer (IDOL) Server. IDOL Server collects indexed data from connectors and stores it in its proprietary structure, optimized for fast processing and retrieval of data. As the information processing layer, IDOL forms a conceptual and contextual understanding of all content in an enterprise, automatically analyzing any piece of information from over 1,000 different content formats and even people's interests.


Over 500 operations can be performed on digital content by IDOL, including hyperlinking, agents, summarization, taxonomy generation, clustering, eduction, profiling, alerting and retrieval. IDOL enables organizations to benefit from automation without losing manual control. This complementary approach allows automatic processing to be combined with a variety of human controllable overrides, offering the best of both worlds

# Business Overview

and never requiring an "either/or" choice. IDOL integrates with all known legacy systems, eliminating the need for organizations to cobble together multiple systems to support their disparate components.

### Brands

The proliferation of unstructured information is occurring in every industry from manufacturing to financial services. The IDOL platform is a horizontal technology that is used across every industry vertical sector. We use different "virtual brands" to accelerate the adoption of IDOL in these different vertical markets, including the following primary brands:

| | |
|---|---|
| Autonomy | IDOL branded to automate the retrieval, processing, and management of global enterprise information |
| Autonomy Cardiff | IDOL branded for Business Process Management solutions, embedding "self-understanding" into documents to increase process efficiency and ensure compliance |
| Autonomy etalk | IDOL branded for Meaning Based Marketing offering intelligent solutions for targeting and engagement, online marketing optimization, web content management all on a common platform |
| Autonomy iManage | IDOL branded for information management in the legal and professional services market |
| Autonomy Interwoven | IDOL branded for Customer Interaction solutions to automate interaction and provide immediate intelligence on industry trends and customer behaviour |
| Autonomy Virage | IDOL branded for Rich Media Management in broadcast production, archive management, Internet TV and IPTV applications, and Security and Surveillance solutions facilitating real-time surveillance, detection and protection operations |
| Autonomy Zantaz | IDOL branded for information governance, archiving, policy management and eDiscovery applications |

## Business Model

Autonomy's unique business model enables highly efficient and profitable indirect distribution of Autonomy's technology. Autonomy's business is the development and licensing of world-leading technology for the automated processing of all forms of unstructured information, working with world-leading organizations to sell and implement Autonomy solutions. Autonomy's OEM customers bring Autonomy technology to vertical markets by embedding it in their own solutions. Autonomy benefits from the expertise of a community of systems integrators and consultants who engage with customers to expand and sustain use of Autonomy products in a wide variety of industries.

### Indirect

Autonomy has over 400 Value Added Resellers such as Accenture, IBM Global Services, Cap Gemini, HP and Wipro. This is Autonomy's primary revenue channel. Autonomy has a team of partner managers who attend occasional client meetings and ensure that customers receive the appropriate level of service, but these partners offer domain specific expertise and a global presence which allows Autonomy to run an incredibly efficient sales operation.

### OEMs

Autonomy has over 400 Original Equipment Manufacturer (OEM) relationships with other major software vendors that build our technology into their products. These OEMs span every software sector from CRM to Product Lifecycle Management software. An OEM pays an upfront non-refundable fee and then writes its new product which can take up to two years depending on its product roadmap and release cycle. Once the product is launched they make license payments of around three percent of product sales to Autonomy. This we would expect to expand over time as OEM customers embed more IDOL functionality in subsequent product releases.

### Product

Customers who purchase a license for Autonomy's software initially pay an Average Selling Price of around $400,000. A typical initial contract will likely include four of Autonomy's 500 functions and around four connectors. The pricing model is based on three drivers of value: the number of users, the number of functions / connectors and the amount of information being processed; any two will be prevalent in a particular use case. For example, in intelligence processing type applications it will be the amount of data rather than number of users that is the dominant factor, but in a corporate environment for a knowledge portal it may well be the large number of users that determines the pricing. In addition to the upfront license payment these customers also pay support and maintenance, based on standard pricing as a percentage of the license price per annum, which renews on an annual basis.

### Hosted Solutions


Autonomy also operates Software-as-a-Service (SaaS) and hosted solutions, where Autonomy software is run on hardware owned by Autonomy in one of our data centres. In fact, Autonomy runs the largest managed archive in the world at over 12 petabytes of data.

### Appliance

Currently a small part of the business focused on quick time-to-value and high return. Where customers have an urgent need to deploy IDOL, either for regulatory or commercial imperatives, we are able to provide a complete solution installable on a turnkey basis to be used in a discrete part of the customer's business. The value of these solutions is in the high end functions they offer in a complete package, and thus the margin profile is not dissimilar to our traditional license business.

## Financial Model

Autonomy is one of the very rare examples of a pure software model. Many software companies have a large percentage of revenues that stems from professional services, because they have to do a lot of customisation work on the product for every single implementation. In contrast, Autonomy ships a standard product that requires little tailoring, with the necessary implementation work carried out by approved partners such as IBM Global Services, Accenture and others. This means that after the cost base has been covered, for every extra dollar of revenue that comes in significant benefits can fall straight through to the bottom line. What this offers is a business model with a proven record of strong operating leverage and that is expected to continue to deliver industry leading operating margins and revenue to cash conversion.

# Autonomy's Five Year Record (IFRS)

| *$'000 (except EPS)* | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **Revenue** | 739,688 | 503,229 | 343,409 | 250,682 | 96,032 |
| **R&D Expenditure** | 98,785 | 78,410 | 62,341 | 51,680 | 21,923 |
| **Profit from Operations** | 272,178 | 186,493 | 88,649 | 55,540 | 8,831 |
| **Profit Before Tax** | 266,066 | 185,707 | 91,447 | 56,319 | 12,628 |
| **Net Profit** | 191,551 | 131,749 | 62,465 | 39,085 | 8,950 |
| **Cash from Operations** | 286,572 | 178,783 | 83,108 | 46,948 | 17,721 |
| **Fully Diluted EPS** | 0.80 | 0.61 | 0.30 | 0.21 | 0.07 |

This section presents Autonomy's operating performance, providing commentary on the financial performance of Autonomy over the past two years.

The following financial review includes certain financial information extracted without adjustment from our consolidated financial statements prepared in accordance with International Financial Reporting Standards. This financial information is a summary and you should read the entire Annual Report carefully.

In addition, although IFRS disclosure provides investors and management with an overall view of the company's financial performance, Autonomy believes that it is important for investors to also understand the performance of the company's fundamental business without giving effect to certain specific, non-recurring and non-cash charges. Consequently, the non-IFRS (adj.) results exclude share of profit/loss of associates, post-acquisition restructuring costs and non-cash charges for the amortization of purchased intangibles, share-based compensation, non-cash translational foreign exchange gains and losses and associated tax effects. Management uses the adjusted results to assess the financial performance of the company's operational business activities. See reconciliations on page 36.

## 2009 Compared to 2008

| *$'000 (except EPS)* | 2009 | 2008 | % Change |
|---|---|---|---|
| Revenue | 739,688 | 503,229 | 47% |
| Gross profit (adj.) | 651,941 | 458,191 | 42% |
| Gross profit margin (adj.) | 88% | 91% | (3%) |
| Profit from operations (adj.) | 328,905 | 207,482 | 59% |
| Profit before tax (adj.) | 323,066 | 208,892 | 55% |
| Net profit (adj.) | 232,798 | 148,001 | 57% |
| | | | |
| Gross profit (IFRS) | 602,291 | 438,702 | 37% |
| Gross profit margin (IFRS) | 81% | 87% | (7%) |
| Profit from operations (IFRS) | 272,178 | 186,493 | 46% |
| Profit before tax (IFRS) | 266,066 | 185,707 | 43% |
| Net profit (IFRS) | 191,551 | 131,749 | 45% |
| | | | |
| EPS | | | |
| - basic (adj.) | 0.98 | 0.69 | 42% |
| - diluted (adj.) | 0.97 | 0.68 | 42% |
| | | | |
| - basic (IFRS) | 0.81 | 0.61 | 31% |
| - diluted (IFRS) | 0.80 | 0.61 | 31% |

# Financial Review

## Operating Results

***Revenues*** for 2009 totalled $739.7 million, up 47% from $503.2 million for 2008. During 2009 there were 66 deals over $1.0 million. In 2009, Americas revenues of $517.2 million represented 70% of total revenues, and Rest of World revenues of $222.5 million represented 30% of total revenues. The increase in revenues in the year is a combination of strong organic growth and the successful integration of Interwoven. These results reflect our ongoing strategy focussed on licensing of our core IDOL software and pre-configured applications.

***Cost of revenues (excluding amortisation of purchased intangibles)*** in 2009 totalled $87.7 million, up 95% from $45.0 million in 2008. The increase is driven by the increased revenues, together with a shift in the mix of revenues at the beginning of 2009 as a result of the Interwoven acquisition, and by the IDOL SPE Quick Start program. Cost of revenues have returned to historic levels at the end of 2009 as planned. Cost of revenues (excluding amortisation of purchased intangibles) as a percentage of revenues increased from 9% in 2008 to 12% in 2009.

***Amortization of purchased intangibles*** arise in connection with acquisitions, in particular the Verity, ZANTAZ, Meridio and Interwoven acquisitions. Amortization of purchased intangibles in 2009 totalled $49.7 million, up 155% from $19.5 million in 2008. The increase is attributable to amortization arising in connection with purchased intangibles acquired with the Interwoven acquisition.

***Gross profits*** *(adj.)* for 2009, were $651.9 million, up 42% from $458.2 million for 2008. Gross margins (adj.) for 2009, were 88%, compared to 91% for 2008. Gross profits (IFRS) for 2009 were $602.3 million, up 37% from $438.7 million for 2008. Gross margins (IFRS) for 2009 were 81%, compared to 87% for 2008. Gross margins increased throughout 2009 as planned following the completion of the integration of Interwoven and the transition of the core Interwoven business to higher margin sales, and were also impacted by the IDOL SPE Quick Start program, but have returned to historic levels in Q4 2009 as planned.

***Research and development expenses*** in 2009 totalled $98.8 million, up 26% from $78.4 million in 2008. The increase in research and development expenses from 2008 to 2009 was primarily due to investment in the company's new IDOL SPE technology, and increased headcount and associated expenses from increased investment in the company's core technology and new investment arising from the Interwoven acquisition.

Under IAS 38 the company is required to capitalize certain aspects of its research and development activities. R&D capitalization for 2009, was $24.7 million (2008: $11.2 million), offset by amortization charges of $8.9 million (2008: $4.8 million) during the period arising from historical R&D capitalization. The capitalization and offsetting charges resulted in a net credit (before tax) in the period of $15.8 million (2008: $6.4 million). R&D capitalization increased in the year primarily due to the new IDOL SPE product reaching commercial exploitation phase Q3 2009, and returned to historical levels in Q4 2009. The net margin impact for the full year is 2% (2008: 1%). Capitalization has returned to traditional levels of approximately 2.5% of revenues after completion of IDOL SPE in Q3 2009.

***Sales and marketing expenses*** totalled $170.8 million in 2009, up 26% from $135.2 million in 2008. The increase in sales and marketing expenses from 2008 to 2009 was primarily due to increased advertising, additional headcount and an increase in sales commissions due to an increase in sales and a change in the geographic and size-of-transaction mix, all of which also increased with the expansion of the group in 2009. As a percentage of revenues sales and marketing expense has fallen to 23% in 2009 from 27% in 2008.

***General and administrative expenses*** totalled $60.6 million in 2009, up 42% from $42.6 million in 2008. The increase in general and administrative expenses from 2008 to 2009 was due to an increase in average headcount due to the Interwoven acquisition and general growth together with legal, accounting and tax advice necessitated by the enlarged group.

***Post-acquisition restructuring costs*** totalled $0.8 million in 2009, versus $1.2 million in 2008. Such costs are non-recurring costs associated with acquisitions, in 2009 associated with the Interwoven acquisition and in 2008 associated with the 2007 acquisitions of ZANTAZ and Meridio.

***Gain on foreign exchange*** totalled $0.9 million in 2009, compared to a $5.1 million in 2008. The gain arises as a result of movements in foreign currencies against the functional currency of the relevant operating companies. This results in transactions being settled at different amounts to the foreign currency asset or liabilities carrying value.

***Profit from operations*** *(adj.)* for 2009 was $328.9 million, up 59% from $207.5 million for 2008. Operating margins (adj.) were 44% in 2009, up from 41% in 2008. Profit from operations (IFRS) for 2009 was $272.2 million, up 46% from $186.5 million for 2008. Operating margins (IFRS) were 37% in 2009 consistent with 37% in 2008. Operating margins (adj.) have increased year on year due to the increased revenues and the operating leverage within the Autonomy business model. Operating margins (IFRS) are static due to higher non-cash charges related to the purchased intangibles acquired with Interwoven.

***Share of loss of associate***, relating to our investment in OpenV, totalled $0.3 million in 2009, down 88% from $2.2 million in 2008. The movement reflects OpenV's improved results in 2009 as the company moves out of its early stage growth phase.

***Interest income*** totalled $1.2 million in 2009, down 64% from $3.4 million in 2008. Interest income in 2009 was impacted by interest rates which fell below 1% during 2009.

***Interest payable*** totalled $7.0 million in 2009, up 263% from $1.9 million in 2008, as a result of the Company's new loan agreement in connection with the Interwoven acquisition together with higher interest rates than under the old loan agreement, offset by early capital repayments. The shortage of capital throughout 2009 drove borrowing rates to 225 basis points above LIBOR for the new loan agreement, compared to 50 basis points above LIBOR for the previous loan.

***Profit before tax*** *(adj.)* totalled $323.1 million in 2009, up 55% from $208.9 million in 2008. Profit before tax (IFRS) increased to $266.1 million in 2009, up 43% from $185.7 million in 2008 The increase in profit before tax reflects the increase in revenues from 2008 to 2009 offset by smaller increases in costs, as discussed above.

***Income tax charges*** totalled $74.5 million in 2009, compared to $54.0 million in 2008. The group's effective tax rate fell from 29.1% in 2008 to 28.0% in 2009. The decrease in tax rate from 2008 is a combination of the impact in 2009 of the change in the UK corporation tax rate from 30% to 28%, combined with the standard utilisation of losses during 2009.

***Net profit*** *(adj.)* totalled $232.8 million in 2009, up 57% from $148.0 million in 2008. Net profit (IFRS) totalled $191.6 million in 2009, up 45% from $131.7 million in 2008.

***Basic and diluted earnings per share*** *(adj.)* were at record levels of $0.98 and $0.97 per share respectively in 2009, each increasing by 42% from $0.69 and $0.68 respectively in 2008. Basic and diluted earnings per share

(IFRS) were also at records level of $0.81 and $0.80 respectively in 2009, each increasing by 31% from $0.61 in 2008.

## Balance Sheet Items

Cash and financing activities are set forth below under "***Liquidity and Capital Resources.***"

***Goodwill*** increased to $1,287.0 million at the end of 2009 from $796.6 million at the end of 2008 as a result of goodwill arising in connection with the Interwoven acquisition.

***Other intangible assets*** increased to $399.3 million at 31 December 2009 from $98.7 million at the end of 2008 as a result of additions during the year. Purchased intangibles of $311.3 million were acquired in connection with the Interwoven acquisition, with a further $53.7 million of additions relating to software licenses, patents, trademarks and internally generated assets such as from the launch of the company's IDOL SPE product. These additions were offset by amortisation charges of $64.9 million (2008: $24.3 million).

***Property, plant and equipment*** was at $33.9 million at 31 December 2009, compared to $27.4 million at the end of 2008. Additions during the year have been partially offset by the depreciation expensed.

***Equity and other investments*** increased by $9.2 million to $16.6 million, primarily relating to an investment of $4.3 million in an offering of shares by blinkx Plc. The company holds a 13.8% interest in blinkx Plc, which is measured at fair value each period end. No impairment has been required for any of the group's investments.

***Deferred tax assets*** increased to $24.0 million at the end of 2009, from $13.5 million at the end of 2008. The increase is driven by the ability of the group to recognise previously unrecognised tax and stock option losses. As the profitability and share price of the company continues to grow then this asset may increase further.

***Trade and other receivables*** increased to $275.5 million at the end of 2009, from $176.8 million at the end of 2008. The increase is commensurate with the increased revenues of the group. Days' sales outstanding (DSOs) remained consistent at 88 days at 31 December 2009, within the company's normal range of 85-90 days (2008: 84 days). Other receivables, which include deposits, prepayments, sales tax and accrued income, increased to $45.2 million from $35.6 million, attributable to the increase in the size of the company's business throughout 2009. Despite the difficult economic climate, bad debt write off in the year was less than 1% of revenues.

***Trade and other payables*** increased to $69.4 million at the end of 2009, from $31.9 million at the end of 2008, attributable to the increase in the size of the company's business throughout 2009.

***Bank loans*** increased to $197.5 million at the end of 2009, from $37.2 million at the end of 2008. The increase is due to the additional loan drawn in connection with the Interwoven acquisition, offset by early repayment of $37.5 million during the year.

***Tax liabilities*** stood at $43.3 million at the end of 2009, up from $27.9 million at the end of 2008, driven by the increased profitability of the group.

***Deferred tax liabilities*** stood at $85.1 million at the end of 2009, up from $2.5 million at the end of 2008. The increase is attributable to deferred tax liabilities associated with purchased intangibles acquired with Interwoven.

***Deferred revenue*** increased to $173.5 million at the end of 2009, up from $99.2 million at the end of 2008. The increase is a combination of organic growth in license business together with the integration of Interwoven, offset by a shift in business model towards revenue that does not require support contracts.

## Liquidity and Capital Resources

Cash and cash equivalents totalled $242.8 million at 31 December 2009, versus $199.2 million at 31 December 2008 (prior to the Interwoven acquisition). Movements in cash flow during 2009 of note (discussed below in more detail) included:

- Acquisition of Interwoven, Inc. for aggregate consideration of approximately $800 million funded by an underwritten placing of ordinary shares, a new revolving credit facility from Barclays and a portion of Interwoven and Autonomy's cash reserves;
- Early repayment of the Barclays credit facility of $37.5 million;
- Expenditure on product development, resulting in a cash outflow of $24.7 million (2008: $11.2 million), attributable to new R&D efforts associated with the acquisition of Interwoven and one-off spend relating to development of new products; and
- Investment of $4.3 million in an offering of shares by blinkx Plc.

Cash generated by operations totalled $286.6 million in 2009, an increase of 60% from $178.8 million in 2008. The increase in cash generation from 2008 to 2009 was directly related to increased revenues, increased operating margins and strong cash collection during the year. Income tax payments increased from $32.4 million in 2008 to $36.6 million in 2009 due to increased profits.

Net cash provided by financing activities totalled $486.5 million in 2009, up from $4.8 million in 2008. Cash provided by financing activities in 2009 was primarily the result of a share placement in January 2009 to fund the Interwoven acquisition, providing net proceeds of $308.5 million, together with the proceeds of employee share option exercises totalling $24.7 million. Cash provided by financing activities in 2009 also included $200.0 million drawn on the new bank loan for the Interwoven acquisition, which was offset by early repayments of the company's bank loans, interest charges and arrangement fees totalling $46.6 million. Cash provided by financing activities of $4.8 million in 2008 was generated by proceeds of employee share option exercises, offset by repayments of and interest on the company's bank loan totalling $12.6 million. The company did not repurchase any shares during 2009 or 2008.

Net cash used in investing activities totalled $694.5 million in 2009, up from $30.7 million in 2008, principally as a result of the Interwoven acquisition in March 2009 resulting in a net cash outflow of approximately $620 million. Further outflows of approximately $10 million relate to restructuring provisions set up prior to the acquisition by previous management. The remainder of the uses in 2008 and 2009 and the movement in the periods related to purchases of property, plant and equipment, investments and expenditure on product research and development.

At 31 December 2009 the company had remaining bank debt of $197.5 million, up from $37.2 million at the end of 2008. The increase in the balance is the result of the company's new bank loan for the Interwoven acquisition, offset by early repayments.

The company's commitment for 2009 under operating leases was $17.0 million (2008: $12.2 million), as discussed in note 26. The company does not have any material financial guarantees or related covenants. Substantially all of the company's cash balances are held in short-term deposits with AAA ratings, paying market interest rates. The company

holds material cash balances in pounds sterling, U.S. dollars and Euros. The company does not currently undertake currency hedging transactions to cover the company's transaction or translation exposures, but the company may choose to hedge a portion of these exposures in the future.

The directors believe that the company's current cash and cash equivalents and cash generated from operations will be sufficient to meet the company's anticipated cash requirements for working capital and capital expenditures for at least the next 12 months.

## Supplemental Metrics[1]

Autonomy is supplying supplemental metrics to assist in the understanding and analysis of Autonomy's business.

| | 2009 |
|---|---|
| Organic Growth | 16%[2] |
| Cash conversion (LTM CFFO/LTM adj. EBITDA[3]) | 80% |
| Cash conversion (lagged to account for growth and seasonality of the business) | 91% |
| Cash conversion (lagged to account for growth and seasonality of the business and acquired Interwoven trade debt) | 99% |

(1) The items in the table above are provided for background information and may include qualitative estimates.

(2) The company integrates acquired businesses immediately upon acquisition such that it is not possible to identify results from acquired businesses separately from the results of the group. In order to estimate organic growth the company has eliminated the estimated contribution from Interwoven from the 2009 results and compared the adjusted result to the 2008 reported amounts. The estimated contribution from Interwoven in 2009 is derived from the 2008 reported amounts for Interwoven after adjusting for discontinued operations of $66 million in FY2008.

(3) Adj. EBITDA is defined as operating cash flow before movements in working capital.

## Key Risks

Autonomy operates globally in varied markets and is affected by a number of risks inherent in its activities, not all of which are within its control. The following discussion identifies the most significant risks that may adversely affect the company's business, operations, liquidity, financial position or future performance. This section should be read carefully in conjunction with the "Forward-Looking Statements" on page 73 of this document. The Audit Committee has responsibility for overseeing the risk management processes and procedures, and conducts a regular review of activities.

The key risks to which the business is exposed are summarized as follows:

- Our business depends on our core technology, currently marketed under the brand IDOL, and our strategy has been, and for the foreseeable future will continue to be, to concentrate our efforts on developing and marketing software based on our proprietary technology.
- Technology which significantly competes with the company's technology would present a material risk to the company.
- Expenditures increasing without a commensurate increase in revenues, and rapid changes in market conditions, could result in poor operating results.
- The average selling prices of our products could decrease rapidly, which may negatively impact revenues and gross margins.
- The continuation of unfavourable economic and market conditions.
- Our reliance on sales of our products by third parties, such as value added resellers, makes it more difficult to predict our revenues, cash flow and operating results as we rely on entities not within our control to properly represent, market and forecast sales of our products.
- Our ability to expand sales through indirect sellers.
- The continued service of our executive directors.
- The hiring and retention of qualified personnel.
- Errors or defects in our products, which could negatively affect our revenues and the market acceptance of our products and increase our costs.
- Problems encountered in connection with potential acquisitions.
- Claims by others that we infringe on their intellectual property rights.
- Our ability to effectively manage our growth.
- Additional operational and financial risks as we continue to expand our international operations.
- Any breach of our security measures and unauthorised access to a customer's or our data.

The company's policies applicable to employees addressing key business risks, including financial, communications, whistle blowing and health and safety, are made available through policy manuals and the company's intranet site.

The processes to identify and manage the key risks to the success of the company are an integral part of the internal control environment. Such processes, in addition to those discussed above, include strategic planning, appointing highly skilled managers with accountability, regular monitoring of performance and setting and communicating high standards and targets for ethics, safety and health.

Sushovan Hussain

Sushovan Hussain
Chief Financial Officer
22 February 2010

# Financial Review

## The company has several key performance measures used internally to monitor and challenge performance and to assist decision making. The most important measures are summarized as follows:

| Indicator | Purpose of Indicator | 2009 | 2008 | % change | Target Range |
|---|---|---|---|---|---|
| Revenue | Measure of the company's success in growing the adoption of its technologies | **$739.7m** | $503.2m | 47% | ↑ |
| Revenue per employee | Measure of operating efficiency and success of the company's business model | **$439,000** | $403,000 | 9% | ↑ |
| Average selling price[1] | Indicator of the value of the company's offerings and industry trends | **$403,000** | $392,000 | 3% | $350-400k |
| Deals > $1 million | Indicator of strategic value of company's offerings and general economic indicator | **66** | 40 | 65% | ↑ |
| Gross margins (adj.)[*,2] | Indicator of success of the company's business model | **88%** | 91% | (3%) | 89-92% |
| Operating margins (adj.)[*,3] | Used to monitor overall company performance | **44%** | 41% | 8% | 45-50% |
| EPS (adj.)[*,3] | Measure of overall company performance for total shareholder return | **$0.97** | $0.68 | 42% | ↑ |
| DSOs | Measure of quality of customer base and conversion of revenues to cash | **88 days** | 84 days | 5% | 85-90 days |
| Cash balances[4] | Indicator of cash collection, use of resources and key company assets | **$242.8m** | $199.2m | 22% | >$100m |
| LTM cash conversion[5] | Measure of ability to convert profits to cash | **99%** | 93% | 6% | 90-100% |
| R&D expense | Important measure for long term company investment in technology leadership, but will vary over time | **$98.8m** | $78.4m | 26% | N/A |
| Average headcount | Indicator of growth of company relative to revenue growth | **1,684** | 1,248 | 35% | N/A |

* For adjusted results details and reconciliations see page 36. The above items are provided for background information and may include qualitative estimates.
(1) Excludes large deals (>$2 million) for consistency.
(2) Gross margins increased throughout 2009 as planned following the completion of the integration of Interwoven and the transition of the core Interwoven business to higher margin sales, and were also impacted in Q3 2009 by the IDOL SPE Quick Start program, but have returned to historic levels in Q4 2009 as planned.
(3) The increases in operating margins and EPS reflect significantly increased revenue, due to a combination of strong organic growth and the integration of Interwoven, versus the company's relatively fixed cost-base.
(4) Gross and net cash balances increased significantly throughout the year, driven by cash generated from operations of $287 million and equity and debt financing, offset principally by the acquisition of Interwoven, Inc., early repayment of debt, one-off expenditure on new product development, one-off costs incurred for new product launch and investment in an offering of shares by blinkx Plc.
(5) Lagged by one quarter to account for growth, and adjusting for approximately $25 million in excessive trade debt owed by Interwoven at time of acquisition.

# Corporate Responsibility

Autonomy is committed to supporting the principles of economic success, environmental stewardship and social responsibility. We believe that by acting as a responsible corporate citizen we will not only minimize business risk, but also enhance our reputation as a business partner and employer. Further, by advocating and resourcing staff development and community engagement, we believe that we can differentiate Autonomy from other employers and create a business where people want to work.

## Our Approach

Our business strategy and our Corporate Social Responsibility (CSR) strategy are closely linked. Meeting the needs of our society creates the best opportunities to grow our business in the long term. There is one vision at the heart of everything we do: We aim to revolutionize the way computers process human-friendly information, automating otherwise manually intensive processes, resulting in a positive impact for our customers and their stakeholders. Our CSR strategy is designed to help us realize this vision.

In addition to generating economic value for all our stakeholders, our primary business activities contribute a range of benefits to the wider society in which we operate. Our technology portfolio allows companies to make greater use of digital information and improve operational efficiency, thereby reducing climate change that results from the mass production of corporate literature, and inefficient manufacturing and distribution networks. In addition, our information governance software helps to regulate enterprise information, which in turn helps to promote ethical business practices. In this context we take regular account of the significance of social, environmental and ethical matters to our operations as part of our regular risk assessment procedures, with such matters regularly considered by the executive directors.

### Oversight

Sushovan Hussain, Chief Financial Officer and Board Director, has been appointed by the Board as the director responsible for all matters relating to corporate social, ethical, employment and environmental policies. This year management renewed the company's ethical policy, which sets forth the principles that guide our strategy, and implemented a number of specific programmes.

### Stakeholder Dialogue

The company endeavours to be honest and fair in our relationships with customers and suppliers, and to be a good corporate citizen respecting the laws of the countries in which we operate. The company is accountable to our shareholders but also endeavours to consider the interests of all of our stakeholders, including employees, customers and suppliers, as well as the local communities and environments in which we operate. We proactively encourage and respond to feedback from all our stakeholders, through quarterly consultations and through our corporate communications strategy. The Autonomy website includes a written record of our ongoing dialogue with the investment community, which we make available for all our stakeholders to view.

### Monitoring

The Board is committed to monitoring the company's corporate social responsibility policies in key areas. Management monitors the company's day-to-day activities in order to assess risks in these areas and identify actions that may be taken to address those risks. Given the company's relatively small size and minimal social and environmental impact, we believe that there are few risks to our short and long term value proposition arising from these matters, although we consider the potential to deliver greater value by responding to these issues appropriately. As a result at present the Board has not linked the management of these risks to remuneration incentives, given the difficulties in measuring the changes to those risks objectively. The Board believes the company has adequate information to assess these matters, and effective systems for managing any risks. The company's website includes a section dedicated to corporate ethical, employment and environmental issues.

### Policies

Whilst the Board considers that material risks to the company arising from social, ethical, employment and environmental issues are limited, given the

nature of the company's business, policies have been adopted in key areas to ensure that such risks are limited. Examples of policies and practices in these areas are given below.

## People

As of the beginning of 2010, Autonomy employs approximately 1,800 people worldwide and, in order to continue to grow as a business, the company needs to continue to recruit and retain only the best talent. Therefore it is our policy to pursue practices that are sensitive to the needs of our people. The company strives for equal opportunities for all of our employees, including disabled employees, and we do not tolerate harassment of, or discrimination against, our staff.

### Priorities

The company's priorities are:

- Providing a safe workplace with equality of opportunity and diversity through our employment policies.
- Encouraging our people to reach their full potential through career development and promotion from within where possible.
- Communicating openly and transparently within the bounds of commercial confidentiality, whilst listening to our people and taking into account their feedback.
- Recognizing and rewarding our people for their contribution and encouraging share ownership at all levels.

The company respects the rule of law within all jurisdictions in which we operate and supports appropriate internationally accepted standards including those on human rights. Our equal opportunities policies prohibit discrimination on grounds such as race, gender, religion, sexual orientation or disability. This policy includes, where practicable, the continued employment of those who may become disabled during their employment. The company's policies strive to ensure that all decisions about the appointment, treatment and promotion of employees are based entirely on merit, and continued development of the company is made with the maximum practicable involvement and input from employees.

### Training and Development

Autonomy is committed to helping people reach their full potential through ongoing training and development. In 2009 Autonomy provided in excess of 2,500 days of training, and funded a tuition reimbursement budget of nearly $40,000. We cultivate a working environment in which continual feedback is encouraged. Together with performance reviews, this enables all employees to take responsibility for their professional development, with frequent opportunities to enrol in scheduled internal training courses, weekly presentations from subject experts and our annual training conference attended by employees from around the world at the start of each new financial year.

### Employees with Disabilities

The company's policy is to give full and fair consideration to suitable applications for employment from people with disabilities. If existing employees become disabled they will continue to be employed in the same job or, if this is not practicable, efforts will be made to find suitable alternative employment and to provide appropriate training.

### Reward and Recognition

To support the goal of attracting and retaining the best people, Autonomy provides competitive and fair rates of pay and benefits in each local market where it operates.

In 2009 Autonomy extended its industry-leading sales compensation plan across all sales persons worldwide, including those from recently acquired companies. In addition during the year Autonomy increased quarterly and annual bonus targets for individual exceptional performance (below director level).

Share plans are offered to incentivize and retain employees, and in 2009 more than 190 individual employees were recognized for their contributions by being awarded employee share options which vest over three years.

### Employment Policies

Autonomy's employment policies are developed to reflect local legal, cultural and employment requirements. Autonomy seeks to maintain high standards wherever the group operates, as Autonomy aims to ensure that it is recognized as an employer of choice. Autonomy considers its employee relations to be good.

### Human Capital Management

We consider human capital management of paramount importance, including issues of staff satisfaction, the quality of and investment in our workforce. We encourage all our stakeholders to engage in continual dialogue on this topic, in line with our efforts to promote transparency and accountability in all areas of our corporate governance. We believe that these measures will help to ensure our long-term success in a competitive industry where attracting and retaining a highly skilled workforce will ultimately result in higher cash flow per employee.

In general, we believe the quality and breadth of that dialogue serve as the best indication of the success of our human capital management practices, above all interaction with our employees themselves through the management chain, rather than looking to abstract numerical indicators. However, we are able to provide the following statistics which offer quantitative reassurance that this dialogue is becoming more and more effective in promoting industry leading working practices.

| | Autonomy | Industry Average |
|---|---|---|
| **Productivity** | | |
| Absence (days per year)1 | 3.5 | 7.4 |
| **Gender** | | |
| Percentage Female[2] | 23% | 25% |
| **Retention** | | |
| Length of Service (years)[3] | 4.6 | 2.6 |
| **Seniority** | | |
| Average Age (years)[4] | 36.6 | 33.4 |
| **Development** | | |
| Training (hours) per Employee[5] | 152 | 148 |

(1) Data from Chartered Institute of Personnel and Development (CIPD), 2009
(2) Goldman Sachs Sustain 2009 Report (data from 2007)
(3) Data from CIPD, 2009
(4) Data from www.microsoft.com
(5) Goldman Sachs Sustain 2009 Report (data from 2007)

## The Environment

It is the company's policy to ensure, by encouraging environmental best practice in the business, that our operations have as little environmental impact as is consistent with our business needs. The effect on the environment of our activities is monitored, where appropriate, with regard to the low overall environmental impact of our primary activities as a software publisher. As a developer of software the company has no manufacturing facilities and our premises are composed exclusively of offices. Staff make use of computers to generate intellectual property. This involves neither hazardous substances nor complex waste emissions. The vast majority of the company's sales comprise software that is normally delivered

electronically to customers. Outmoded office equipment and computers are resold or recycled to the extent practicable.

The company recognises the increasing importance of environmental issues and these are discussed at Board level when appropriate. A number of initiatives continued in 2009. An environmental action plan is implemented at group and departmental level through various initiatives. These include monitoring resource consumption and waste creation so that when targets are set for improvement they are realistic and meaningful, ensuring existing controls continue to operate satisfactorily and working with suppliers to improve environmental management along the supply chain. The company has recycling facilities in all of our primary offices, and waste paper is minimised by promoting paperless processes and downloadable software products. We have also operated a carbon neutral air cooling system during the hottest months of the year at our headquarters in Cambridge. Renewable energy sources are also being investigated. The provision of cycle sheds, showers and changing facilities at the company's Cambridge, San Francisco, Pleasanton, Munich and Dallas offices facilitate greener commuting, and the extensive provision of telephone and video conferencing equipment offer an alternative to international travel, where appropriate. The company's environmental policy is published on our website.

In terms of products, certain technical innovations during 2009 have also given us the ability to reduce power consumption in the server architecture we make available to customers by over 85%.

As noted above, the company monitors key consumption indicators, most effectively at our headquarters in Cambridge, UK where we have the largest number of employees. The following chart sets forth comparative consumption for the past three years based on such monitoring, measured versus the company's revenues during those periods:

| Tons CO2 per $m Revenue | 2009 | 2008 | 2007 |
|---|---|---|---|
| Gas | 0.13 | 0.25 | 0.24 |
| Landfill | 0.12 | 0.20 | 0.19 |
| Energy use | 0.77 | 0.81 | 1.39 |
| Supplied water (m3) | 3.20 | 6.97 | 9.91 |

## Ethical Business Practices

Autonomy is a software development and sales company based in the UK with overseas sales and development operations. Autonomy does not have manufacturing operations. All employees are expected to behave ethically when working for the company and this is reflected in our policies which are detailed in the staff handbook.

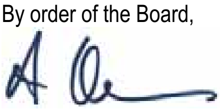
## Charitable Giving

The company maintains a number of charitable giving policies. Our core philanthropic foundation under the corporate commitment programme is education. The company also budgets annually for specific charitable requests from individual staff members, in areas where we have an opportunity to make a significant and measurable impact in the non-profit sector.

The company's matching gift programme matches employee donations to non-profit organizations meeting the company's requirements for charitable donations. Finally, the company permits employees to volunteer a certain number of hours of paid time per year to the charity of their choice provided that the charitable organization meets the company's general requirements for charitable donations.

The company actively encourages every employee to work together to meet the requirements of all of the above policies.

By order of the Board,



Andrew M. Kanter
Company Secretary
22 February 2010

# Directors and Senior Management

Autonomy is led by a highly experienced management team. They bring together extensive expertise covering multiple facets of information technology, its constituent sectors and markets. Biographical details of the directors and senior management are as follows:

## Board of Directors

### Chairman

***Robert S. Webb QC (Queen's Counsel)***, aged 61, was appointed as Non-Executive Chairman of the Board in May 2009. From 1998 through the end of March 2009, Mr. Webb served as General Counsel at British Airways, and in that role was responsible for the legal function with oversight of Government and Industry Affairs, Safety and Security, Risk Management, Business Continuity and British Airways Health Services, and was also variously responsible for Environmental Policy and Corporate Responsibility. Prior to joining British Airways, Mr. Webb was called to The Bar, Inner Temple 1971, and appointed Queen's Counsel in 1988. Mr. Webb served as Head of Chambers, 5 Bell Yard, London, from 1988 to 1998; Recorder of the Crown Court from 1993 to 1998; Bencher, Inner Temple 1997; and as Chairman of the International Relations Committee of the Bar Council 1997/8. Mr. Webb's other current engagements include: non-executive Director of the London Stock Exchange since 2001, where he serves as Chair of the Remuneration Committee; non-executive Director of the BBC since 2007; Chair of BBC Worldwide since 2009; non-executive Director of Hakluyt, a private business research company, since 2005, where he serves as Chair of the Remuneration Committee; and non-executive Director of Argent Group Limited, a property company, since April 2009.

### Executive Directors

***Dr. Michael Lynch OBE FREng, Managing Director and Chief Executive Officer***, aged 44, co-founded Autonomy and has served as Managing Director and Chief Executive Officer since our inception in March 1996. Dr. Lynch is also a non-executive director of the BBC, blinkx Plc and Featurespace Limited, and a trustee of the U.K.'s National Endowment for Science, Technology and the Arts. Dr. Lynch holds an M.A. in electrical and information sciences, a Ph.D in adaptive techniques in signal processing and connectionist models and held a research fellowship in adaptive pattern recognition at Cambridge University. Dr. Lynch was named the Confederation of British Industry's Entrepreneur of the Year, won an IEE Award for Outstanding Achievement and was awarded an OBE for Services to Enterprise. Dr. Lynch is also a Lady Margaret Beaufort Fellow of Christ's College, Cambridge, and the author of a number of academic papers on the subject of Pattern Recognition and Signal Processing. Dr. Lynch was appointed to the Board when Autonomy was founded in 1996.

***Sushovan Hussain, Board Director and Chief Financial Officer***, aged 45, has served as Chief Financial Officer since June 2001 and was appointed a Director in June 2003. Prior to joining Autonomy, Mr. Hussain worked for LASMO plc, one of the world's largest independent oil and gas exploration companies, where he held a number of senior international financial positions, including three years in the Corporate Development department, charged with acquisitions and divestments. Mr. Hussain received his BA in Economics from Cambridge University, England, and became a qualified Chartered Accountant while employed at Ernst & Young in London.

### Non-Executive Directors

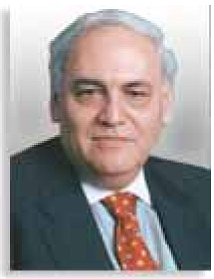
***Barry Ariko, Board Director***, aged 64, has served as a non-executive director of Autonomy since January 2000 and has spent his entire career in the computer and software industry. From November 2003 to November 2007, Mr. Ariko served as Chairman and CEO of Mirapoint, Inc., a leader in messaging networks. He was Chairman and CEO of Extricity, Inc., a leader in B2B workflow software, from January 2000 until May 2001 when it was acquired by Peregrine Systems (now part of Hewlett Packard). He was Executive Vice President and Chief Operating Officer of Netscape Communications, Inc. from August 1998 until it was acquired by AOL. From April 1994 to August 1998, Mr. Ariko was Executive Vice President in charge of the Americas operations for Oracle Corp. Mr. Ariko also serves as a director of Incyte Corp., a U.S. public company doing small molecule drug discovery, as well as for a number of private companies and non-profits. Mr. Ariko holds a BS in Management from Golden Gate University in San Francisco and has completed the Advanced Executive Program at Northwestern University's J.L. Kellogg Graduate School of Management.

***Richard Gaunt, Board Director***, aged 42, co-founded Autonomy and has served as an executive and non-executive director at times since our inception in March 1996. Mr. Gaunt holds a BSc in electronic engineering and an MSc from the University of Natal in Durban. Mr. Gaunt was appointed to the Board when Autonomy was founded in 1996, and has served only as a non-executive director since 2006.

# Directors and Senior Management

### Non-Executive Directors (continued)

***John McMonigall, Board Director***, aged 66, has served as a non-executive director of Autonomy since July 1998. Since April 1990, Mr. McMonigall has been a partner with Apax Partners Worldwide LLP, the private equity firm, where he specializes in telecommunications, software and related fields. From 1986 to 1990, Mr. McMonigall held a variety of positions at British Telecom where he served as a member of the Management Board. He currently serves on the board of Dialog Semiconductor Plc. Mr. McMonigall also serves on the boards of several privately owned companies as a non-executive director.



***Richard N. Perle, Board Director***, aged 66, has served as a non-executive director of Autonomy since February 2000. Mr. Perle has served as Resident Fellow of the American Enterprise Institute for Public Policy Research since 1987. From 1981 to 1987 he was the United States Assistant Secretary of Defence for International Security Policy, and from 2001 through 2003 served as Chairman of the U.S. Defence Policy Board. Mr. Perle is a director of Tapestry Pharmaceuticals, Inc., a pharmaceutical company focused on the development of proprietary therapies for the treatment of cancer. He is a director of FNSS, a joint venture between Nurol (a Turkish company) and British Aerospace. He is a consultant to Clarium Capital, a U.S. based hedge fund. Mr. Perle attended the London School of Economics with Honours Examinations, received an M.A. in politics from Princeton University and a B.A. from the University of Southern California in international relations, and completed various fellowships at Princeton University, the Ford Foundation and the American Council of Learned Societies.

## Executive Management

***Dr. Peter Menell, D.Phil. Oxon, Chief Technology Officer***, aged 43, joined Autonomy's Engineering and Technology Solutions unit in 1998 and has served as Chief Technology Officer since 2004. During that time he has overseen a number of significant advances in Autonomy technology, including key new patents filed, and been responsible for the successful deployment of Autonomy software at multi-divisional organizations across the globe. Prior to joining Autonomy, Dr. Menell conducted computational and neuro-physiology research. Dr. Menell holds a B.A. (Hons) and M.Sc. from York University and a D.Phil. from Magdalen College Oxford.

***Andrew M. Kanter, Chief Operating Officer and General Counsel***, aged 40, joined Autonomy in August 2000 as VP, International Operations and Legal Affairs, and has served as our COO since 2001. Prior to joining Autonomy, through 2000 Mr. Kanter was an associate attorney with Brobeck Hale and Dorr in London, engaged in international mergers and acquisitions and corporate finance. Through 1999, Mr. Kanter was an associate attorney at Brobeck, Phleger & Harrison in San Francisco, and prior to that was an associate attorney with Shearman & Sterling, San Francisco. Mr. Kanter was Clerk to Hon. Christine Miller of the U.S. Court of Federal Claims, Washington, DC. Mr. Kanter holds a J.D. from the University of Southern California and a B.A. from Johns Hopkins University, and also studied at Kansai University of Foreign Studies, Osaka, Japan.

***Nicole Eagan, Chief Marketing Officer***, aged 45, joined the Autonomy group as Chief Marketing Officer in January 2006. Prior to working for Autonomy Ms. Eagan served Verity as a Senior Vice President of Marketing and Chief Marketing Officer from June 2005. Before joining Verity, Ms. Eagan was Vice President, Global Marketing at Quest Software, an application, database and Windows management company from 2004 to 2005. Prior to Quest, Ms. Eagan was the Senior Vice President of Global Marketing at Peregrine from 2001 to 2004. Ms. Eagan also held senior marketing, strategy and business development positions at Extricity, a business process management company and Oracle Corporation. Ms. Eagan holds a B.S. from Montclair University, N.J.

***Stouffer Egan, CEO Autonomy, Inc.***, aged 41, joined Autonomy in March 2001 as Director of Global Accounts. He has served as our Chief Executive Officer, Autonomy, Inc., since 2002. Prior to joining Autonomy, from February 2000 through to March 2001, Mr. Egan was Vice President of Corporate Development for LeadingSide Inc. From January 1995 through February 2000, Mr. Egan held various positions with Dataware Technologies, most recently as VP, Corporate Development. Mr. Egan holds a B.A. in Economics from Trinity College, CT.

# Directors' Report

The directors present their report and the audited accounts for the year ended 31 December 2009 as set out on pages 36 to 71. The Corporate Governance Report on pages 22 to 26 forms part of this report.

## Principal Activity

The group's business activities for the year are set out in the Business Review and the Financial Review on pages 6 to 17. The principal subsidiaries which affected our profit or net assets in the year are listed on page 72.

## Business Review

The company is required by the Companies Act 2006 to set out in this report a fair review of the business of the group during 2009 and the position of the group at the end of the year. This review is contained in the Business Review section of the Annual Report and Accounts (pages 6 to 17), with further commentary on the group's strategy, performance and development in the Chairman's Statement (page 2) and the Chief Executive's Statement (pages 3 to 5). The Financial Review includes a description of the principal risks and uncertainties facing the group (page 13) and a discussion of key performance measures (page 14). In addition, note 29 to the financial statements includes the group's objectives, policies and processes for managing its capital and risk management, along with details of exposures to credit risk and liquidity risk. Full results of the group are set out beginning on page 36. Post-balance sheet events are shown in note 31.

## Research and Development

The group remains firmly committed to research and development to maintain its position as a market leader. During the year the group expensed \$98.8 million related to research and development (2008: \$78.4 million), an increase of 26%. In addition, the group capitalised \$24.7 million (2008: \$11.2 million) of qualifying research and development expenditure as required in accordance with IAS 38.

## Dividends

The Board reviews uses of cash resources on an ongoing basis. In light of the company's continued need for cash for potential trade investments (for example, the Interwoven acquisition in March 2009) and expected significant investment in further research and development, the company to date has not paid or declared dividends, in common with most of its peer companies in the high technology sector. The policy will be kept under continual review. Accordingly the directors do not recommend the payment of a dividend (2008 - £nil).

## Authority to Purchase Own Shares

At the last Annual General Meeting, shareholders authorized market purchases by the company of up to 35,483,671 ordinary shares representing approximately 14.9% of its issued share capital at that time. The authority will expire at the end of the next Annual General Meeting of the company unless renewed at that meeting. During 2009 the company did not conduct any share repurchases. In total, the company has purchased for cancellation 20,997,824 shares, representing approximately 8.7% of the company's total issued share capital at 31 December 2009, at an average price of £1.65 per share, for aggregate consideration of £34.5 million. As of 31 December 2009, the company had remaining authorization to repurchase 35,483,671 of the company's ordinary shares. Any repurchase program during 2010 will depend on market conditions.

## Financial Instruments

The directors' objectives in relation to the use of financial instruments are to minimize risk whilst achieving maximum return on liquid assets. The directors are averse to principal loss and manage the safety and preservation of the company's invested funds by limiting default and market risks by investing with high rated financial institutions. The company's investment portfolio is comprised entirely of cash and cash equivalents with AAA-rated institutions. All short-term investments have a fixed interest rate. The company does not use derivative financial instruments.

The group historically has not faced material exposure to price risk, credit risk, liquidity risk or cash flow risk, outside of the ordinary course of business. The company is marginally exposed to interest rate risk through the company's bank loan.

Further information about the company's financial assets and liabilities is provided in the notes to the financial statements.

## Directors and Their Interests

The current directors of the company and their biographical details are on pages 18 to 19. A statement of their interests in the ordinary share capital of the company, details of share options and details of service contracts are set forth in the Remuneration Committee report beginning on page 27. No director had a material interest in any significant contract, other than a service contract or contract for services, with the company or any of its subsidiaries at any time during the year.

## Re-election of Directors

The company's Articles of Association require at least one third of the directors to be subject to re-election at each Annual General Meeting. Dr. Lynch and Mr. Hussain were re-elected as directors at the company's Annual General Meeting in 2007 and are standing for re-election at the next Annual General Meeting. In addition Messrs. Ariko, McMonigall and Perle are standing for re-election in accordance with the Combined Code. Lastly, Mr. Webb was appointed as a director subsequent to the notice of the last Annual General Meeting, and is thus standing for election for the first time. Each individual's performance continues to be exemplary and they demonstrate commitment to and, in the case of the non-executives independence in, their roles.

## Substantial Shareholdings

As at 22 February 2010, the company had been notified, in accordance with Sections 198 to 208 of the Companies Act 2006, of the following interests in the ordinary share capital of the company by persons other than the directors of the company:

| | Ordinary Shares[(1)] | |
|---|---|---|
| TIAA-CREF and Teachers Advisors | 12,211,039 | 5.07% |
| OppenheimerFunds, Inc. | 12,055,845 | 5.00% |
| FMR LLC | 10,455,282 | 4.34% |
| Legal & General Group Plc | 9,494,196 | 3.94% |

(1) Based on 240,876,287 shares outstanding as of 22 February 2010

## Supplier Payment Policy

The company's policy is to settle payment terms with all suppliers when agreeing a transaction, to ensure that suppliers are aware of the terms and to abide by such terms. Generally the company pays suppliers at the end of the month following that in which the supplier's invoice is received. Creditor days outstanding as at 31 December 2009 calculated in accordance with Schedule 7 Companies Act 2006 for the company was 34 days (2008 - 22 days) and for the principal U.K. subsidiary was 66 days (2008 - 85 days).

# Directors' Report

## Employees
Matters relating to the company's employees are discussed on page 16.

## Corporate, Social and Environmental Matters
Matters relating to corporate, social and environmental matters are discussed beginning on page 15.

## Charitable and Political Contributions
The company's charitable policies are discussed on page 17. The group made $110,000 in charitable donations during 2009 to a variety of charities including the Prince's Trust and the University of Calgary (2008: $152,000). The group did not make any political contributions during 2009 (2008: $nil).

## Going Concern
The group has considerable financial resources together with a significant number of customers across different geographic areas and industries. At 31 December 2009 the group had cash balances of $242.8 million and total debt of $197.5 million. The group has no net debt. As a consequence, the directors believe that the group is well placed to manage business risks successfully despite the current uncertain economic outlook.

After making enquiries and considering the cash flow forecasts of the group the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the twelve month consolidated financial statements.

## Capital Structure
The structure of the company's capital consists solely of ordinary shares, nominal value 1/3p per share. There are no restrictions imposed by the company on the transfer of securities in the company or limitations on the holding of securities or requirements to obtain approval for a transfer of securities. The Substantial Shareholdings table above sets forth such details as are informed to the company of the identity of persons holding a significant direct or indirect interest, and the holdings size. The company has no information with regards to the holdings to believe such holdings are for any reason other than ordinary financial investment purposes.

The company has an Employee Benefit Trust which holds approximately 418,000 ordinary shares of the company and approximately 496,800 ordinary shares of blinkx Plc. All rights with respect to such shares are exercised by the independent trustee of the trust.

There are no restrictions on voting rights on the company's ordinary shares, including any limitations on voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or arrangements by which with the company's co-operation financial rights carried by securities are held by a person other than the holder of the securities. The company is not aware of any agreements between holders of securities which may result in restrictions on the transfer of securities or voting rights. The company does not have any rules regarding the appointment and replacement of directors and amendment of the Articles of Association other than those set forth in the Articles of Association. The powers of the directors are as set forth in the company's Articles of Association and as permitted by shareholders pursuant to the company's Annual General Meeting. The company is not party to any material agreements that take effect, alter or terminate upon a change of control following a takeover bid, or any agreements between the company and its directors or employees providing for compensation or loss of office or employment that occur because of a takeover bid.

## Indemnity Provisions
At the company's Annual General Meeting in May 2006 shareholders approved an amendment to the company's Articles of Association providing for indemnification of directors, which remains in force. A copy of the company's Memorandum and Articles of Association are available for inspection at the company's office and from Companies House. No qualifying third party indemnity provisions or any qualifying pension scheme indemnity provisions are in force as of the date of this report or were in force during the year ended 31 December 2009.

## Annual General Meeting
The Annual General Meeting will be held at the company's offices in Cambridge, UK, on 24 March 2010, at 4:00 p.m. The company will convey the results of proxy votes cast at the meeting, and the results will be announced through the regulatory news services. Notice of the Annual General Meeting is set out in the circular to shareholders accompanying this annual report. The company is committed to the policy of one share one vote. Deloitte LLP, the company's independent auditors, have expressed their willingness to continue in office as auditors. A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

## Audit
Each of the persons who were a director at the date of approval of this annual report confirms that:

- so far as he is aware, there is no relevant audit information of which the company's auditors are unaware; and
- he has taken all reasonable steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

On behalf of the Board,

Dr. Michael R. Lynch
Chief Executive Officer and Co-Founder
22 February 2010

Registered Office: Cambridge Business Park, Cowley Road, Cambridge CB4 0WZ
Registered Number: 3175909

# Corporate Governance Report

The Autonomy Board is committed to high standards of corporate governance, which it considers are critical to business integrity and to maintaining investors' trust in the company. Autonomy expects all its directors and employees to act with honesty, integrity and fairness. The company will strive to act in accordance with the laws and customs of the countries in which it operates; adopt proper standards of business practice and procedure; operate with integrity; and observe and respect the culture of every country in which it does business.

## Compliance With the Combined Code

The company's ordinary shares are listed in the U.K. on the London Stock Exchange. In accordance with the Listing Rules of the U.K. Listing Authority, the company confirms that throughout the year ended 31 December 2009, and through to the date of this document, it was compliant with the provisions of, and applied the principles of, Section 1 of the Combined Code. The following section, together with the Remuneration Report on pages 27 to 32, provides details of how the company applies the principles and complies with the provisions of the Combined Code.

## Board Organization and Structure

### The Role of the Board

The Board is responsible for the overall conduct of the group's business and has the powers, authorities and duties vested in it by and pursuant to the relevant laws of England and Wales and the Articles of Association. The Board:

- has final responsibility for the management, direction and performance of the group and its businesses;
- is required to exercise objective judgement on all corporate matters independent from executive management;
- is accountable to shareholders for the proper conduct of the business; and
- is responsible for ensuring the effectiveness of and reporting on the group's system of corporate governance.

### Schedule of Matters

The Board has a formal schedule of matters reserved to it for its decision and these include:

- approval of financial statements;
- dividends;
- board appointments and removals;
- long term objectives and commercial strategy;
- changes in capital structure;
- appointment, removal and compensation of senior management;
- major investments including mergers and acquisitions;
- risk management;
- corporate governance;
- engagement of professional advisors;
- political donations; and
- internal control arrangements.

The schedule is reviewed periodically. It was last formally reviewed by the Board in February 2010, at which time it was determined that no material amendments were required. Other specific responsibilities are delegated to Board committees. Details of the responsibilities delegated to the Board Committees are given on pages 24 and 25.

The ultimate responsibility for reviewing and approving the annual report and financial statements, and for ensuring that they present a balanced assessment of the company's position, lies with the Board.

### Board Meetings

The Board meets at least once a quarter, and the meetings are structured to allow open discussion. All directors participate in discussing the strategy, trading, financial performance and all other matters relating to the company. Prior to each meeting, the Board is furnished with information in a form and quality appropriate for it to discharge its duties concerning the state of the business and performance.

The following table shows the number of years directors have been on the Board as at 22 February 2010 and their attendance at scheduled Board meetings they were eligible to attend during 2009:

| | Years on Board | Attended / Meetings |
|---|---|---|
| Robert Webb, Chairman .................. | —(1) | 4/4 |
| Barry Ariko ...................................... | 10 | 7/7 |
| Richard Gaunt .................................. | 4(2) | 7/7 |
| Sushovan Hussain ........................... | 6 | 6/7(3) |
| Dr. Michael Lynch ............................ | 14 | 7/7 |
| John McMonigall .............................. | 11 | 7/7 |
| Richard Perle .................................. | 10 | 6/7(3) |

(1) Commenced 1 May 2009
(2) Mr. Gaunt commenced service as a non-executive director in 2006 following service as an executive director from the company's founding.
(3) Unable to attend one meeting due to pre-arranged schedule conflicts.

# Corporate Governance Report

In addition to regular Board meetings, there are a number of other meetings to deal with specific matters. Directors unable to attend a Board meeting because of another engagement are nevertheless provided with all the papers and information relevant for such meetings and are able to discuss issues arising in the meeting with the Chairman or the Chief Executive.

### Division of Responsibilities

The roles of the Chairman and Chief Executive are separate and there is a division of responsibilities that is established in writing. The Chairman is responsible for the operation, leadership and governance of the Board, ensuring its effectiveness and setting its agenda. The Chief Executive is responsible for the management of the group's business and the implementation of Board strategy and policy.

### Board Composition, Balance and Independence

The Board comprises seven Directors, six of whom served throughout all of 2009. In addition to the Chairman, there are four non-executive directors, and two executive directors.

The names and biographical details of the current directors are set out on pages 18 to 19. The terms and conditions of employment of the non-executives are available for inspection at any time at the registered office.

Two new board candidates have been identified, who are expected to take up their appointments in March 2010. Announcements will be made shortly.

The Board has been established in order to give a balance of knowledge, experience and objective overview. The Board is structured to ensure that there is no undue dominance by the executive directors, with controls over compensation and all other material matters reserved for the Board rather than individual executives, as discussed herein. The Board is satisfied that the appropriate balance has been consistently achieved.

The four non-executive directors and Chairman provide a blend of experience to enable them to bring strong independent judgement and considerable knowledge and experience to the Board's deliberations. The Chief Executive Officer and the Chief Financial Officer sit as executive directors to provide the necessary skills in commercial, operational and financial management. Mr. McMonigall is the senior independent non-executive director.

The Board considers all of its present non-executive directors to be fully independent and free from any material business or other relationships that could materially interfere with the exercise of their independent judgement, with the exception of Mr. Gaunt who served as an executive director through to the end of 2005. Each of Messrs. Ariko, McMonigall and Perle's service to the Board has been extraordinary since the company's founding and their continued service is of high benefit notwithstanding their tenure of over nine years.

There are no cross-directorships or significant links between directors serving on the Board through involvement in other companies or bodies. The sole limited exception to the foregoing is that both Dr. Lynch and Mr. Webb serve as non-executive directors of the BBC. The Board has considered this relationship and determined that there is no impairment of the independence of either individual, noting that the position is a non-commercial role, the large size of the BBC board and that neither individual can of their own accord directly influence compensation for the other in any situation.

Under the laws of England and Wales, the executive and non-executive directors are equal members of the Board and have overall collective responsibility for the direction of the Company. In particular, non-executive directors are responsible for:

- bringing a wide range of skills and experience to the group, including independent judgement on issues of strategy, performance, financial controls and systems of risk management;
- constructively challenging the strategy proposed by the Chief Executive and executive directors;
- scrutinising and challenging performance across the group's business;
- assessing risk and the integrity of the financial information and controls of the group; and
- ensuring appropriate remuneration and succession planning arrangements are in place in relation to executive directors and other senior executive roles.

Throughout 2009 the company has complied with procedures in place for ensuring that the Board's powers to authorize conflict situations have been operated effectively. During 2009 no conflicts arose which would require the Board to exercise authority or discretion in relation to such conflicts.

### Company Secretary

All directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that the Board procedures are followed and that applicable rules and regulations are complied with. The Company Secretary ensures that the directors take independent professional advice as required. Committees are provided with sufficient financial and informational resources to undertake their duties.

## Board Effectiveness

### Appointments to the Board

There is a formal procedure for the appointment of new directors to the Board. This is described in the section on the Nominations Committee. Robert Webb was identified as a potential candidate by internal sources and subsequently recommended to the Board by the Nominations Committee on the basis of his wealth of legal and business experience. The whole Board considered Mr. Webb's appointment before his appointment was confirmed.

### Information and Professional Development

From time to time, the Board considers input from non-Board members on matters of significance or on new opportunities for the group. Financial plans including results and market forecasts are regularly discussed at Board meetings. Non-executive directors periodically visit different parts of the group and are provided with briefings and information to assist them in performing their duties.

The Chairman is responsible for ensuring that induction and training programmes are provided and the Company Secretary is to organise the programmes. Individual directors are also expected to take responsibility for identifying their training needs and to take steps to ensure that they are adequately informed about the company and their responsibilities as a director. The Board is confident that all its members have the knowledge, ability and experience to perform the functions required of a director of a listed company.

# Corporate Governance Report

On appointment, individual directors are expected to undergo an induction programme in accordance with the recommendations of the Combined Code, covering, amongst other things:

- the business of the group;
- their legal and regulatory responsibilities as directors of the company;
- briefings and presentations from relevant executives; and
- opportunities to visit business operations.

If appropriate, the induction will also include briefings on the scope of committees, meetings with the external auditor and other areas the Company Secretary deems fit, considering the director's area of responsibility. The Company Secretary provides updates on legal, accounting and regulatory changes and developments relevant to individual director's areas of responsibility. Throughout their period in office, the directors are continually updated on the group's businesses.

### Performance Evaluation

The members of the Board evaluate the performance of the Board, its committees and individual members at meetings, at the first meeting following the end of the year, with the aim of improving individual contributions, the effectiveness of the Board and its committees and the group's performance. The non-executive directors, led by the senior independent director, are responsible for the scope of the evaluation, taking into account the views of executive directors.

The evaluation is designed to determine whether the Board continues to be capable of providing the high level judgement required and whether, as a Board, the directors are informed and up to date with the business and its goals and understand the context within which it operates. The current evaluation is also to include a review of the administration of the Board covering the operation of the Board, its agenda and the reports and information produced for the Board's consideration. The Board will continue to review its procedures, its effectiveness and development in the year ahead.

The evaluation undertaken in 2009 found the performance of each director to be effective and concluded that the Board provides the effective leadership and control required for a listed company.

### Re-election of Directors

All directors are subject to re-election by shareholders every three years, and at each annual general meeting one third retire by rotation. Directors who are appointed by the Board retire at the next annual general meeting so that they may be re-elected by shareholders, in accordance with the Articles of Association.

### Independent Advice

The Board recognises that there may be occasions when one or more of the directors feel it is necessary to take independent legal and/or financial advice at the company's expense. There is an agreed procedure to enable them to do so.

### Indemnification of Directors

In accordance with the company's Articles of Association and to the extent permitted by the laws of England and Wales, directors are granted an indemnity from the company in respect of liabilities incurred as a result of their office. In respect of those matters for which the directors may not be indemnified, the company maintained a directors' and officers' liability insurance policy throughout the year. Neither the company's indemnity nor the insurance provides cover in the event that the director is proven to have acted dishonestly or fraudulently.

## Board Committees

The Board has established an Audit Committee, a Remuneration Committee and a Nominations Committee to deal with specific aspects of the company's affairs. The Board is satisfied that the terms of reference for each of these committees satisfy the requirements of the Combined Code. The terms of reference for all Board committees can be found on the company's website at www.autonomy.com or a copy can be obtained by application to the Company Secretary at the company's registered office.

The committees are provided with all necessary resources to enable them to undertake their duties in an effective manner, at the cost of the company as it deems necessary. This may include the appointment of external consultants where appropriate.

The Company Secretary or his delegate acts as Secretary to the committees. The minutes of committee meetings are available to all directors. No one other than committee chairmen and members are entitled to be present at a meeting of the nomination, audit or remuneration committees, but others may attend at the invitation of the committee.

### Audit Committee

The members of the Audit Committee during the year, together with a record of their attendance at scheduled meetings which they were eligible to attend, are set out below:

| | Attended / Meetings |
|---|---|
| Barry Ariko | 4/4 |
| John McMonigall | 4/4 |
| Richard Perle | 3/4[(1)] |

(1) Unable to attend one meeting due to pre-arranged schedule conflicts.

The Audit Committee is comprised of financially literate members having the necessary ability and experience to understand financial statements, and each have served as the chair at times during 2009.

Candidates for permanent chair of the Audit Committee are being considered as of the date of this report, with an appointment announcement expected imminently.

The committee's terms of reference include, among other things:

- monitoring the scope and results of the external audit;
- the review of interim and annual results;
- the involvement of the external auditors in those processes;
- review of whistle blowing procedures;
- considering compliance with legal requirements;
- accounting standards and the Listing Rules of the Financial Services Authority; and
- advising the Board on the requirement to maintain an effective system of internal controls.

The committee also keeps under review:

- the independence and objectivity of the group's external auditors;
- value for money of the audit; and
- the nature, extent and cost-effectiveness of the non-audit services provided by the auditors.

The committee has authority over the appointment, remuneration and resignation or dismissal of the company's auditors.

The committee meets at least four times a year, and always prior to the announcement of interim or annual results. The external auditors and Chief Financial Officer attend all meetings in order to ensure that all the information required by the committee is available for it to operate effectively. The entire committee also meets each quarter with the external auditors without any executive directors present.

The committee has discussed with the external auditors their independence, and has received and reviewed written disclosures from the external auditors regarding independence. Non-audit work is generally put out to tender. In most cases, the company engages another independent firm of accountants to perform tax consulting work to avoid the possibility that the auditors' objectivity and independence could be compromised; work is only carried out by the auditors in cases where they are best suited to perform the work, for example, tax compliance. The company does not award general consulting work to the auditors. However, from time to time, the company will engage the auditors on matters relating to acquisition accounting and due diligence. In these circumstances, the Chief Financial Officer seeks approval from the committee.

### Nominations Committee

The members of the Nominations Committee during the year, together with a record of their attendance at scheduled meetings which they were eligible to attend, are set out below:

| | Attended / Meetings |
|---|---|
| Richard Perle, Chairman | 1/1 |
| Barry Ariko | 1/1 |
| John McMonigall | 1/1 |

The Nominations Committee meets periodically when required. In addition to meetings there are a number of ad hoc meetings to address specific matters.

The Nominations Committee's key objective is to ensure that the Board comprises individuals with the requisite skills, knowledge and experience to ensure that it is effective in discharging its responsibilities. The Nominations Committee:

- makes recommendations to the Board on board composition and balance;
- proposes to the Board new appointments of executive and non-executive directors; and
- identifies and nominates for approval candidates to fill Board vacancies as and when they arise.

Nominations are based on the balance of skills, knowledge and experience on the Board. The committee also reviews the time required from a non-executive director. The committee strives to consider candidates from a wide range of backgrounds, also taking into account what skills and expertise are needed on the Board in the future. In conducting its duties the committee may seek external advice.

In 2009 the committee made one recommendation for Board candidacy. The process adopted in Mr. Webb's appointment was that Mr. Webb was proposed as a candidate to the Nominations Committee, which had responsibility to make recommendations on the appointment of a new chairman. In accordance with the Nomination Committee's terms of reference, the committee reviewed Mr. Webb's candidacy against that of other Non-Executive Director candidates, including Mr. Webb's ability to devote the appropriate amount of time to the role, and concluded that, given the skill set and experience of each of the Non-Executive Directors, Mr. Webb fulfilled the key requirements for the role and recommended his appointment to the Board.

### Remuneration Committee

The members of the Remuneration Committee during the year, together with a record of their attendance at scheduled meetings which they were eligible to attend, are set out below:

| | Attended / Meetings |
|---|---|
| Barry Ariko, Chairman | 3/3 |
| John McMonigall | 3/3 |
| Richard Perle | 3/3 |

In addition to scheduled meetings, there are a number of ad hoc meetings to deal with specific matters. The responsibilities of the Remuneration Committee include:

- determining, on behalf of the Board, the company's policy on the remuneration of the Chairman, the executive directors and the senior management team of the company;
- determining the total remuneration packages for these individuals, including any compensation on termination of office; and
- appointing any consultants in respect of executive directors' remuneration.

A full description of the responsibility and operation of the remuneration committee is set out in the remuneration report beginning on page 27.

## Relations with Shareholders

The company is committed to communicating its strategy and activities clearly to its shareholders and, to that end, maintains an active dialogue with investors through a planned programme of investor relations activities. The Investor Relations programme includes:

- formal presentations of full year and interim results;
- briefing meetings with major institutional shareholders after results, to ensure that the investor community receives a balanced and complete view of the group's performance and the issues faced by the group;
- regular meetings with institutional investors and analysts by the Chief Executive and the Chief Financial Officer to discuss business performance;
- hosting investors and analysts sessions at which senior management from deliver presentations which provide an overview of business and operations;
- attendance by senior executives at relevant meetings and conferences throughout the year;
- responding to enquiries from shareholders and analysts through the company's Investor Relations team; and
- a section dedicated to shareholders on the company's website, www.autonomy.com.

Overall responsibility for ensuring that there is effective communication with investors and that the Board understands the views of major shareholders on matters such as governance and strategy rests with the Chairman, who makes himself available to meet shareholders for this purpose.

The senior independent director and other members of the Board are also available to meet major investors on request on relevant topics. The senior independent director has a specific responsibility to be available to shareholders who have concerns, for whom contact with the Chairman, Chief Executive or Chief Financial Officer has either failed to resolve their concerns, or for whom such contact is inappropriate.

# Corporate Governance Report

The principal communication with private investors is via the annual report and through the AGM, an occasion which is attended by relevant available directors and at which all shareholders present are given the opportunity to ask questions. After the AGM, shareholders can meet informally with directors. Investors are also invited to submit questions via the company's website with relevant answers posted on the website for all to read.

A summary presentation of results and development plans is also given at the AGM before the meeting chairman deals with the formal business of the meeting. All substantive resolutions at the company's AGMs are decided on a poll. The poll is conducted by the company's registrars and scrutinised by the Company Secretary. The proxy votes cast in relation to all resolutions, including details of votes withheld, are disclosed to those in attendance at the meeting and the results of the poll are published on the company's website and announced via the regulatory news service. Financial and other information is made available on the company's website, www.autonomy.com, which is regularly updated.

## Internal Control

The Board is responsible for the company's system of internal control and for reviewing its effectiveness with regard to achieving the company's business objectives and enhancing shareholder value. Such a system is designed to manage the risk of failure, and by its nature can provide only reasonable and not absolute assurance against material misstatement or loss. The system has been in place throughout the year and up to the date of these financial statements. The Board regularly reviews the effectiveness of the company's internal control systems, including financial, operational and compliance controls and risk management, and believes the system is in accordance with the revised Turnbull guidance. These reviews are principally based on reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied or indicate a need for more extensive monitoring. The Board has also performed a specific assessment for purposes of this Annual Report using the standard of care applicable to directors in the exercise of their duties. The directors consider that its internal controls, particularly given the company's size and the nature of the company's business operations, provide reasonable but not absolute assurance against material misstatement or loss.

The main elements of internal control currently include:

- *Operating Controls*. The identification and mitigation of major business risks on a daily basis is the responsibility of the executive directors and senior management. Each business function within the company maintains controls and procedures, as directed by senior management, appropriate to its own business environment while conforming to the company's standards and guidelines. These include procedures and guidelines to identify, evaluate the likelihood and mitigate all types of risks on an ongoing basis.

- *Information and Communication*. The company's operating procedures include a comprehensive system for reporting financial and non-financial information to the directors. Financial projections, including revenue and profit forecasts, are reported on a regular basis to senior management against corresponding figures for previous periods. The central process for evaluating and managing non-financial risks is weekly meetings of business functions, each involving at least one director, together with periodic meetings of executive directors and senior management.

- *Finance Management*. The finance department operates within policies approved by the directors and the Chief Financial Officer. Expenditures are tightly controlled with stringent approvals required based on amount. Duties such as legal, finance, sales and operations are also strictly segregated to minimize risk.

- *Insurance*. Insurance cover is provided externally and depends on the scale of the risk in question and the availability of cover in the external market.

### Internal Audit

As the company has grown during 2009 the Board has discussed matters relating to internal control and the present need to establish an internal audit function. In 2009 new senior managers were hired responsible for internal reviews. The company has in the past and continues to maintain extensive internal reporting functions and internal controls and significant executive director involvement in all aspects of the company's business affairs. No material breaches of internal controls were identified during 2009.

### Review of Effectiveness

The Board has reviewed the effectiveness of the internal control system, including financial, operational and compliance controls and risk management, in accordance with the Combined Code for 2009 through to the date of this report. No significant failings or weaknesses were identified during this review. However, had there been any such failings or weaknesses, the Board confirms that necessary actions would have been taken to remedy them.

### Significant Risks

The company has an ongoing process for identifying, evaluating and managing the significant risks faced by the company that has been in place for 2009 and up to the date of approval of the annual report and financial statements. Principal controls are managed by the executive directors and key employees, including regular review by management and the Board of the operations and the financial statements of the company.

### Key Risks

Matters relating to key risks are discussed on page 13.

By order of the Board,

Andrew M. Kanter
Company Secretary
22 February 2010

# Remuneration Report

**Dear Shareholder,**

I am pleased to present the report by the Remuneration Committee on directors' remuneration for 2009 and plans for 2010.

As set out in the Chairman and Chief Executive's statements, Autonomy had another record year in 2009 despite the difficult economic conditions that affected the global economy, following on from an excellent 2008. Against this background, remuneration policies for 2009 were set at the outset of 2009 and have now been set for 2010.

Whilst Autonomy's financial and share price performance have been extraordinary, compensation policies have limited remuneration to one of the most modest packages in the FTSE 100. The Board however recognizes the value of ongoing discussions with shareholders on the matter, and throughout 2009 we maintained an extensive dialog with shareholders regarding the most appropriate compensation for Autonomy's executive directors. During 2009, the company conducted a wide ranging and in-depth review of remuneration strategy for executive directors.

This report reflects compensation for 2009 and new changes which have come into place for 2010.

The Remuneration Committee is satisfied that the changes made are appropriate particularly in light of the company's performance and historical pay practices. The Remuneration Committee believes that the remuneration policy detailed in this report is appropriate to enable Autonomy to recruit the people we need, and retain and motivate those already with us at this critical time. The Remuneration Committee considers that the individual elements of the remuneration package that will apply in 2010 constitute an appropriate balance between fixed and variable compensation.

As well as considering current arrangements, the Remuneration Committee continues to monitor how well incentive awards made in previous years align with the company's performance. In this regard, the Committee is confident that there has been and remains a strong link between performance and reward, which is evidence in results and share price performance.

The Remuneration Committee has appreciated the dialogue and feedback from investors over the past years and will continue to take an active interest in their views and the voting on the remuneration report. As such, it hopes to receive your support at the AGM on 24 March 2010.

Barry Ariko
Chairman, Remuneration Committee
22 February 2010

### Contents

The detail of this remuneration report is set out over the following sections: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Page 30 Other Considerations
Page 31 Audited Remuneration Information


## Remuneration Committee

The Remuneration Committee is comprised to exercise independent judgement and consists only of independent non-executive directors. The Remuneration Committee is responsible for reviewing and approving general compensation policies and setting compensation levels for executive officers. The committee also administers incentive compensation plans. For further details, a description of the terms of reference can be found on page 25.

### External advisers

During the year, the committee relied on information contained in generally available reports from Towers Perrin and Hewitt. Deloitte LLP also supplied market data, advice on market practice and governance, performance analysis and advice on plan design and performance measures. Deloitte are also the company auditors and their advice in relation to remuneration has been provided in compliance with the terms of reference of the Audit Committee and the Ethical Standards of the Auditing Practices Board.

### Meetings

The Remuneration Committee had one scheduled and a further two ad hoc meetings during the year, and acted by written consent.

## Overview of Remuneration Philosophy

### Remuneration Policy

The Remuneration Committee again reviewed remuneration and reward arrangements for the company's executive directors in 2009. Consistent with the policies of the Combined Code, the company's policy for directors' remuneration is that packages are intended to attract, motivate and retain directors of the highest calibre. To maximise the effectiveness of the remuneration policy, careful consideration is given to aligning the remuneration package with shareholder interests and best practice.

The aim is to target an appropriate level of remuneration in order to achieve the company's growth program but not detract from the goals of good corporate governance.

In setting total remuneration, the Remuneration Committee considers a relevant group of comparators, selected on the basis of the role being considered. In 2009 the relevant reference point was deemed to be the broader FTSE 100 and practice amongst international sectoral peers.

Historically and on a go-forward basis a high proportion of total remuneration has been and will be awarded through short term and long term performance related remuneration. The Remuneration Committee believes that incorporating and setting appropriate performance measures and targets in the package is paramount; this will be reflected in an appropriate balance of operational and equity performance.

Remuneration elsewhere within the company is taken into account when determining executive compensation. The company's highest paid employee earns a base salary approximately 4.65 times the base salary of the average employee.

### Applicability

The remuneration policy applies to executive directors. The Committee believes that his significant equity investment in the company aligns his interests with shareholders.

# Remuneration Report

## Compliance

The Remuneration Report has been prepared in accordance with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. It also describes how the principles set out in the Combined Code have been applied in relation to the remuneration for the current and forthcoming financial years. Deloitte LLP has audited the contents of the report to the extent required by the Companies Act.

## Changes for 2010

For convenience, the table below sets out a summary of changes to the individual elements of the remuneration packages which will be effective for 2010 for executive directors, discussed in more detail below.

| Element | Changes for 2010 |
|---|---|
| Base salary | No change to the benchmarking policy |
| Benefits | No new benefits |
| Pensions | No change to 3% capped matching pension |
| Annual Cash Bonus | No change to maximum bonus or performance conditions |
| Deferred Bonus | Amended plan introduced for 2010 with grant deferred subject to financial performance targets |
| Deferred Shares Bonus | New policy introduced for 2010 with vesting subject to performance over 3 years |

## Remuneration Elements

The main elements of executive remuneration packages historically and for the expected future are:

### Base Salary

The Remuneration Committee considers the level of base salary for each executive director annually, taking into account the performance of the individual and the company's strategies. The Remuneration Committee also takes into account salaries in relevant comparable companies, specific factors relating to the individual, internal relatives and overall affordability. In establishing individual salary levels, the Remuneration Committee is conscious that it should pay no more than is necessary to retain and motivate the executive, while ensuring business objectives are fulfilled. There is no automatic adjustment in respect of inflation. Executive directors' base salaries are low relative to similarly situated companies, with performance-based incentive compensation forming the most important factor in overall compensation.

2009 salaries and benefits for the CEO and CFO were approved by the Board in early 2009 based on performance during 2008, which included record operating profits (adj.) up 91% from the prior year, and the fact that executive director compensation was amongst the lowest of similarly sized companies despite extraordinary performance.

Given the company's significant growth, continued strong performance in 2009, market positioning against UK and US comparators, the lack of generous pension entitlements and increase in size of roles, base salary raises of 9% for 2010 were approved, raising the CEO's salary for 2010 to £343,350 (2009: £315,000) and the CFO's salary to £309,015 (2009: £283,500). The executive directors' base salaries remain in the bottom quartile of comparable companies.

### Benefits

Limited employment-related benefits are provided, consisting only of company car or car allowance and basic private medical insurance. Remuneration relatively common amongst peers which is not provided includes: final salary pensions; executive director-specific pensions; tax advice; premium private health care; exit packages other than standard notice periods; guaranteed bonuses; or director-specific equity plans.

### Pensions

During 2006 the company established a matching pension scheme available to all U.K. employees with more than three years' service. The scheme provides for the company to make a matching contribution to an individual employee's pension, up to 3% of the individual's base salary (only) per annum. Other than this generally available benefit, the directors do not have pension, retirement or similar entitlements.

### Bonuses

In accordance with common practice amongst the company's peers, the company has performance-related bonus remuneration for certain executive directors. Bonuses are intended to encourage the achievement of pre-defined annual financial objectives and to focus on the most important measures of business success, while rewarding individuals for outstanding performance. In this way executive bonuses seek to align the interests of shareholders and those eligible.

**Cash Bonus.** Executive directors are eligible for a bonus of 50% of base salary for basic achievement and up to an additional 50% of base salary for over performance against pre-agreed financial targets.

For 2009, the financial targets for executive directors for basic performance were (i) organic revenue growth of at least 15% and (ii) adjusted earnings per share growth of at least 30%, weighted 50%/50% for bonus purposes. Over-performance targets enabled an additional payout of 25% of base salary for exceeding adjusted earnings per share growth of 30%, and an additional 25% for adjusted earnings per share exceeding 103 cents. For 2009 each of the basic targets were achieved, as well as the first over-performance target, resulting in a bonus entitlement of 75% of base salary for each of Dr. Lynch and Mr. Hussain. The targets were selected as objective, challenging growth targets designed to meet the growth objectives of the company. In selecting the targets and levels of compensation the committee reviewed the plans of similarly situated technology companies and analyst consensus forecasts.

**Deferred Bonus.** For 2010, the Board has adopted a new deferred bonus policy for executive directors. The Board believes that share ownership by directors and staff aligns their personal interests with those of shareholders.

Executive directors will be granted share options following achievement of pre-agreed financial targets, with vesting over subsequent years. Executive directors will be eligible for a single annual grant of up to 150,000 share options if the performance level is achieved. Grants will vest from the date of award over the subsequent three years. The first grant would be in January 2011 for achievement of 2010 targets. No other share options will be granted to executive directors in 2010 other than under this policy.

The Board sets reasonable individual grant limits. As a result, at 31 December 2009, the Board collectively held options over less than 0.3% of outstanding equity, and options granted to the Board during 2009 totalled 0.03% of the company's outstanding shares at 31 December 2009. Options granted to Board members during 2009 totalled less than 9% of all share options outstanding at 31 December 2009.

Share options are always issued at market value. The maximum number of share options the company is permitted to grant is up to 10% of the outstanding shares. There has been no departure from this policy during 2009.

# Remuneration Report

**Deferred Shares Bonus.** For 2010 the Board has approved a new performance share policy as part of the remuneration arrangements. Any ordinary shares granted under the policy will be satisfied from the company's Employee Benefit Trust, thus will be non-dilutive to shareholders.

The maximum annual award level for executive directors for 2010 is 100% of base salary. Vesting of awards is based on meeting stretching performance targets over a three year performance period and, subject to meeting all relevant conditions, shares will normally be released to participants as soon as possible following the third anniversary of the award.

Performance is measured against total shareholder return versus the constituents of the FTSE 100 at date of grant. This measure was chosen as the most relevant index of which the company is a constituent.

For 2010, 25% of an award will vest for performance equal to the FTSE 100's median performance three years hence. 100% of the award will vest for performance placing the company in the top 75th percentile of the FTSE 100's performance three years hence. The award will vest on a straight line basis for performance in between the median and the top quartile. No shares will vest for performance below the median.

The Remuneration Committee will in all cases retain discretion to ensure that, as a condition for the vesting of shares, the underlying overall performance of the company has been satisfactory. Vested awards will include adjustments for any dividends, share splits or similar corporate actions throughout the vesting period.

If a participant resigns or is dismissed before shares are released, they will be forfeited. The Remuneration Committee will have discretion to accelerate vesting in compassionate circumstances. In the event of a change of control during the performance period, performance will be measured at the latest possible date before the change of control to assess the proportion vesting based on performance. The proportion of the award that may be released will then be time pro rated. The Remuneration Committee will have discretion to disapply the impact of time pro rating and to permit up to 100% of awards to vest on a change of control if, due to exceptional business circumstances, returns to shareholders are considered to be at a superior level.

## Non-Executive Director Remuneration

Fees for non-executive directors are determined taking into account expected time commitments and responsibilities, together with comparative market rates and benchmarking data.

Non-executive directors are entitled to basic fees only. For 2009 basic fees were set at $80,500 (or £50,000) per annum for all non-executive directors, except Mr. Gaunt whose fees were £35,000. For 2010 basic fees for all non-executive directors have been set at £60,000 (or $96,000) per annum. For 2010, an additional fee of £20,000 is to be paid to the Chairman of the Audit Committee. The Chairman of the Board earns a fee of £120,000 per annum, which will remain the same in 2010.

Non-executive directors do not participate in any bonus or performance-related plans or any of the group's share incentive, option or pension schemes.

## Other Incentive Schemes

Options form the core element of the company's deferred bonus program for the broader employee base, and are granted in small amounts from time-to-time to a very broad set of the company's employees after achievement of stretching performance targets and significant continuing contribution to value creation. After grant share option awards are then subject to vesting periods, with initial vesting after six or 12 months with the remainder vesting over a total of 2.5 to 3.5 years. Executive Directors participated in this scheme in prior years but no longer do so.

The requirement for individuals to perform prior to granting options has been very effective in motivating performance, achieving targets and (most importantly) minimizing reward unconnected to an individual's performance. It enables the company to specifically tailor grants to an individual's role in an efficient manner. This method also keeps individuals continuously incentivized as a grantee must remain employed to achieve full vesting of the options. This method is also designed to ensure that individuals are not unjustly rewarded, which the Board believes is much more likely if large option grants are made with broad performance targets. Under that method, an individual who was personally underperforming would undoubtedly be enriched if the company met its own broader performance targets, without making any material contribution, particularly given the company's rapid growth and share price appreciation.

## Service Contracts

### Policy

The Combined Code and guidelines issued by institutional investors recommend that notice periods of no more than one year be set as an objective for executive directors and that any payments to a departing executive director should be determined having full regard to the duty of mitigation. The company has achieved these objectives in all respects.

The company's policies prohibit long-fixed contracts and contractual termination payments. The company requires mutual notice periods for directors, but never in excess of 12 months. All executive directors have service contracts and all non-executive directors have appointment letters. All agreements provide for notice of 12 months or less, although do not have a specified fixed term, and all permit garden leave up to the length of the notice period. No other amounts are payable on termination. All terms of appointment are subject to the provisions of the Companies Act 2006 and the requirement to retire by rotation on the third anniversary of the previous election.

### Executive Directors' Contracts

Details of directors' service contracts are available on the company's website. No director is entitled to any automatic payment by virtue of early termination of their contract or a change in control of the company. Details of executive directors' service contracts as at the date of this report are as follows:

| | Date | Mutual Notice Period |
|---|---|---|
| Dr. Michael Lynch ............................ | 9 July 1998 | 6 months |
| Sushovan Hussain ............................ | 27 June 2001 | 12 months |

Each executive director is entitled to current benefits generally made available to all employees and any fees or remuneration he is entitled to as a director of Autonomy. Payment of salary in lieu of notice is permitted on termination. For a fixed period following the termination of employment, each of Dr. Lynch and Mr. Hussain are prohibited from soliciting the company's clients, customers and employees and from competing with the company in a similar geographic area.

# Remuneration Report

### Non-Executive Directors' Contracts

The non-executive directors serve under appointment letters with the Company. All non-executive directors (including the Chairman) are appointed under the Company's Articles of Association, which require that one third of all directors (including executive directors) shall retire at each AGM but that all directors must seek re-election at least every three years. They are also subject to review by the Nominating Committee prior to being considered for election or re-election by shareholders.

Details of non-executive directors' appointment letters as at the date of this report are as follows:

| | Date |
|---|---|
| Robert Webb, Chairman | 1 May 2009 |
| Barry Ariko | 7 Jan 2000 |
| Richard Gaunt[1] | 9 July 1998 |
| John McMonigall | 2 July 1998 |
| Richard Perle | 23 Feb 2000 |

(1) Mr. Gaunt commenced service as a non-executive director in 2006.

Either party may terminate the appointment upon three months' notice or payment of salary in lieu of notice.

Non-executive directors are entitled to be reimbursed for their reasonable out-of-pocket expenses incurred in attending Board meetings and committees thereof. No directors are entitled to reimbursement of non-business expenses, and all directors are subject to the company's global expense policies.

## Other Considerations

### External Directorships

Executive directors may hold positions in other companies as non-executive directors. In 2009, Dr. Lynch was the only executive director with such a position. In connection with his services as a non-executive director of the BBC and blinkx Plc, during the year ended 31 December 2009 Dr. Lynch received total remuneration of £35,000 and £35,000 (2008: £35,000 and £35,000) from the BBC and blinkx, respectively. Dr. Lynch performs these services independently of his duties to the company and thus is entitled to receive such compensation.

### Performance Graph

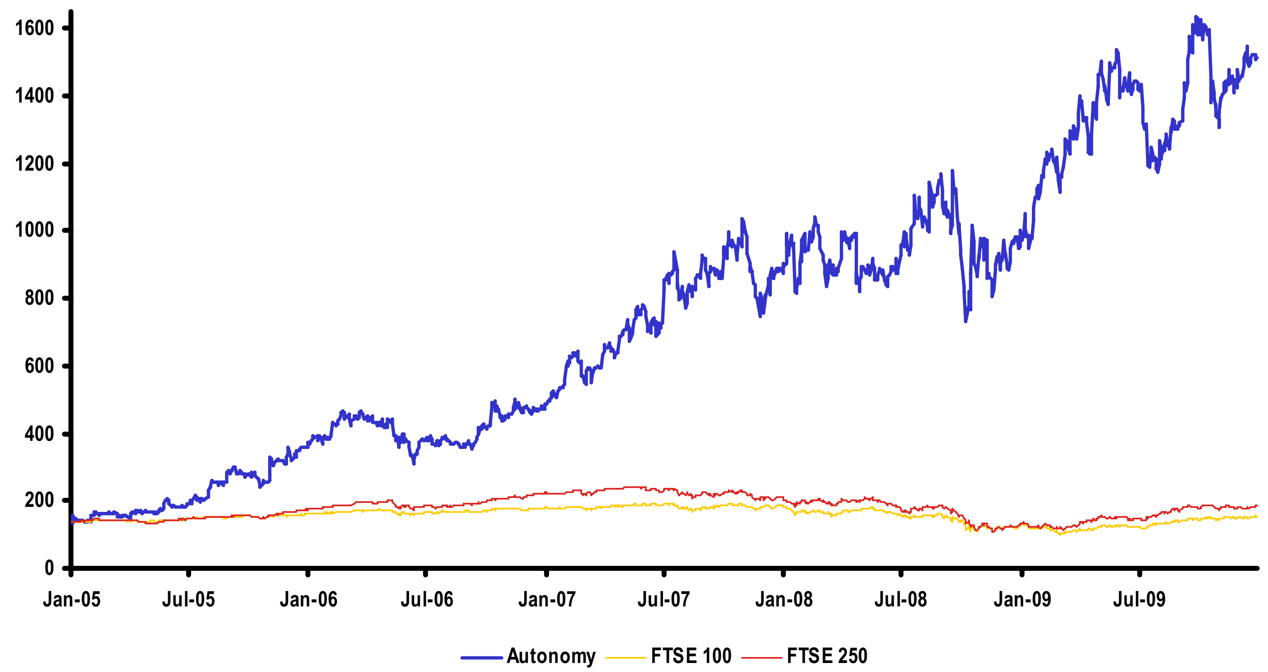
The accompanying graph sets forth the total shareholder return for the last five years of a holding of the company's shares against the corresponding change in a hypothetical holding of shares in the FTSE 100 and FTSE 250 Indexes. These indexes represent broad equity market indexes in which the company, and similar companies, are constituent members.

**Total shareholder return 1 January 2005 to 31 December 2009**

## Autonomy +893%

FTSE 100 +112%, FTSE 250 +134%

**Autonomy share price +781% vs. FTSE 100 and +759% vs. FTSE 250**



# Remuneration Report

## Audited Remuneration Information

### Directors' Remuneration

Remuneration for the year ended 31 December 2009 was as follows:

| | Salary | Benefits[1] | Matching Pension Contributions | Bonuses | Total 2009 | Total 2008 |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ |
| **Executive Directors** | | | | | | |
| Dr. Michael Lynch | 308,625 | 12,079 | 9,413 | — | 330,117 | 609,882 |
| Sushovan Hussain | 282,263 | 12,213 | 8,471 | 212,625 | 515,572 | 548,529 |
| **Non-Executive Directors** | | | | | | |
| Robert Webb, Chairman | 80,000 | — | — | — | 80,000 | — |
| Barry Ariko[2] | 51,613 | — | — | — | 51,613 | 35,419 |
| Richard Gaunt | 32,608 | — | — | — | 32,608 | 18,332 |
| John McMonigall | 51,613 | — | — | — | 51,613 | 35,000 |
| Richard Perle[2] | 51,613 | — | — | — | 51,613 | 35,419 |

(1) Amounts shown reflect the taxable benefit of company cars and private health insurance.
(2) Messrs. Ariko and Perle's remuneration was earned in U.S. dollars but has been translated into sterling for this report.

### Share Options

Details of share options granted to executive directors, all granted based on performance, are set out below. No directors' share options were cancelled or lapsed, or changed, during the year. Vesting and exercise of options is subject to continued employment. See page 29 for the company's policy for executive director share options for 2010 performance.

**Sushovan Hussain**

| At 1 Jan 2009 | Granted During 2009 | Exercised During 2009 | At 31 Dec 2009 | Exercise Price | Market Price at Exercise[4] | Vesting Schedule[1] | First Exercise[2] | Expiry Date |
|---|---|---|---|---|---|---|---|---|
| 10,000 | | 10,000 | — | £3.60 | £12.21 | 4 year/1 year | 15 Mar 2003 | 14 May 2009 |
| 25,000 | | 25,000 | — | £3.05 | £12.21 | 4 year/1 year | 2 May 2003 | 1 May 2009 |
| 50,000 | | 50,000 | — | £2.29 | £12.21 | 3 year/6 month | 1 Feb 2006 | 30 Jul 2012 |
| 30,000 | | 27,500 | 2,500 | £4.25 | £13.68 | 3 year/6 month | 15 Nov 2006 | 14 May 2013 |
| 25,000 | | 12,500 | 12,500 | £3.835 | £14.87 | 3 year/6 month | 11 Mar 2007 | 10 Sep 2013 |
| 40,000 | | — | 40,000 | £4.94 | — | 3 year/6 month | 12 Jun 2007 | 11 Dec 2013 |
| 12,000 | | — | 12,000 | £6.455 | — | 3 year/6 month | 29 Sep 2008 | 28 May 2014 |
| 38,000 | | — | 38,000 | £8.19 | — | 3 year/6 month | 1 Feb 2008 | 31 Jul 2014 |
| 45,000 | | — | 45,000 | £8.61 | — | 3 year/6 month | 19 Jun 2008 | 18 Dec 2014 |
| 4,000[3] | | — | 4,000 | £nil | — | 3 year/6 month | 19 Jun 2008 | — |
| 35,000 | | — | 35,000 | £8.765 | — | 3 year/6 month | 7 Sep 2008 | 6 Mar 2015 |
| 35,000 | | — | 35,000 | £8.75 | — | 3 year/6 month | 24 Dec 2008 | 23 Jun 2015 |
| 35,000 | | — | 35,000 | £10.3 | — | 3 year/6 month | 8 Feb 2009 | 7 Aug 2015 |
| | 30,000 | — | 30,000 | £11.92 | — | 3 year/6 month | 26 Aug 2009 | 25 Feb 2016 |
| | 5,000 | — | 5,000 | £11.92 | — | 3 year/6 month | 26 Aug 2009 | 25 Feb 2016 |
| | 35,000 | — | 35,000 | £11.84 | — | 3 year/6 month | 29 Jan 2010 | 28 Jul 2016 |
| 384,000 | 70,000 | 125,000 | 329,000 | | | | | |

# Remuneration Report

## Share Options (continued)

**Michael Lynch**

| At 1 Jan 2009 | Granted During 2009 | Exercised During 2009 | At 31 Dec 2009 | Exercise Price | Market Price at Exercise | Vesting Schedule(1) | First Exercise(2) | Expiry Date |
|---|---|---|---|---|---|---|---|---|
| 50,000 | | — | 50,000 | £3.05 | — | 3 year/6 month | 22 Mar 2006 | 21 Sep 2012 |
| 30,000 | | — | 30,000 | £4.25 | — | 3 year/6 month | 15 Nov 2006 | 14 May 2013 |
| 25,000 | | — | 25,000 | £3.835 | — | 3 year/6 month | 11 Mar 2007 | 10 Sep 2013 |
| 12,000 | | — | 12,000 | £6.455 | — | 3 year/6 month | 29 Sep 2007 | 28 Mar 2014 |
| 38,000 | | — | 38,000 | £8.19 | — | 3 year/6 month | 1 Feb 2008 | 31 Jul 2014 |
| 45,000 | | — | 45,000 | £8.61 | — | 3 year/6 month | 19 Jun 2008 | 18 Dec 2014 |
| 4,000(3) | | — | 4,000 | £nil | — | 3 year/6 month | 19 Jun 2008 | — |
| 35,000 | | — | 35,000 | £8.765 | — | 3 year/6 month | 7 Sep 2008 | 6 Mar 2015 |
| 35,000 | | — | 35,000 | £8.75 | — | 3 year/6 month | 24 Dec 2008 | 23 Jun 2015 |
| 25,000 | | — | 25,000 | £10.30 | — | 3 year/6 month | 8 Feb 2009 | 7 Aug 2015 |
| | 30,000 | — | 30,000 | £11.92 | — | 3 year/6 month | 26 Aug 2009 | 25 Feb 2016 |
| | 5,000 | — | 5,000 | £11.92 | — | 3 year/6 month | 26 Aug 2009 | 25 Feb 2016 |
| | 30,000 | — | 30,000 | £11.84 | — | 3 year/6 month | 29 Jan 2010 | 28 Jul 2016 |
| 299,000 | 65,000 | — | 364,000 | | | | | |

(1) Vesting schedule is either subject to performance vesting, or over a period of three or four years with the first instalment exercisable after a "cliff" of either six months or one year. After the initial tranche vesting, additional tranches vest in equal quarterly instalments over the remainder of the vesting period.
(2) "First Exercise" represents the date of the vesting of the initial tranche when an initial portion of the options become available for exercise.
(3) Granted as a bonus following achievement of pre-determined acquisition integration targets.
(4) The gain made on exercise of share options during the year was £1,204,753 (2008: £1,811,947).

No non-executive directors hold share options, and the Board does not intend to grant any such options. Options are granted to all employees in the company on the same terms and at an exercise price equal to the fair market value on the date of grant. The fair market value of the company's ordinary shares as quoted on the London Stock Exchange on 31 December 2009 (the last trading day of the year) was £15.03 per ordinary share, and the range during the year ended 31 December 2009 was from £9.50 to £16.36.

### Directors' Interests in Contracts

None of the current directors had a material interest in any contract of significance to which the company or any of its subsidiary undertakings was a party during the financial year.

### Directors and their Interests

The beneficial interests of directors who served during 2009 and their connected persons in the ordinary shares of the company at the start and end of the year were as follows:

| | 1 Jan 2009 | 31 Dec 2009 |
|---|---|---|
| **Executive Directors** | | |
| Dr. Michael Lynch(1) | 20,019,846 | 20,028,546 |
| Sushovan Hussain | 5,945 | 5,945 |
| **Non-Executive Directors** | | |
| Robert Webb, Chairman | — | 8,109 |
| Barry Ariko | — | — |
| Richard Gaunt | 2,672,601 | 2,472,601 |
| John McMonigall | — | — |
| Richard Perle | — | — |

(1) Includes 610,500 ordinary shares which are deemed reportable.

At year end no director had any non-beneficial interests in the shares of the company, other than Dr. Lynch as noted above. Aggregate holdings above do not include employee share options granted to or held by the directors, which are discussed above.

By order of the Board,

Andrew M. Kanter
Company Secretary
22 February 2010

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# Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Responsibility statement**
We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Chief Executive Officer
Dr. Michael R. Lynch
22 February 2010

Sushovan Hussain

Chief Financial Officer
Sushovan Hussain
22 February 2010

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AUTONOMY CORPORATION PLC

We have audited the financial statements of Autonomy Corporation plc for the year ended 31 December 2009 which comprise the Consolidated Income Statement, the Consolidated and Company Statements of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Cash Flow Statements, the consolidated related notes 1 to 31 and the Parent Company related notes 1 to 9. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2009 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

### Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 2 to the group financial statements, the group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following. Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### Under the Listing Rules we are required to review:

- the directors' statement contained within the Directors' Report and note 3 in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

R. Knights

Richard Knights (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Cambridge, England
22 February 2010

# Consolidated Financial Statements

## Consolidated Income Statement for the year ended 31 December 2009

| | Note | 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| Continuing operations | | | |
| Revenue | 4,5 | 739,688 | 503,229 |
| Cost of revenues (excl. amortization) | | (87,747) | (45,038) |
| Amortization of purchased intangibles | | (49,650) | (19,489) |
| Cost of revenues | | (137,397) | (64,527) |
| Gross profit | | 602,291 | 438,702 |
| Research and development | | (98,785) | (78,410) |
| Sales and marketing | | (170,797) | (135,159) |
| General and administrative | | (60,627) | (42,624) |
| Other costs | | | |
| Post-acquisition restructuring costs | 6 | (846) | (1,157) |
| Gain on foreign exchange | | 942 | 5,141 |
| Total operating costs | | (330,113) | (252,209) |
| Profit from operations | 6 | 272,178 | 186,493 |
| Share of loss of associate | 15 | (273) | (2,196) |
| Interest receivable | 9 | 1,205 | 3,353 |
| Interest payable on bank loan | | (7,044) | (1,943) |
| Profit before tax | | 266,066 | 185,707 |
| Tax | 10 | (74,515) | (53,958) |
| Net profit | | 191,551 | 131,749 |
| Earnings per share | | | |
| Basic | 11 | 0.81 | 0.61 |
| Diluted | 11 | 0.80 | 0.61 |

Reconciliation of Non-IFRS Financial Measures

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Gross profit | 602,291 | 438,702 |
| Amortization of purchased intangibles | 49,650 | 19,489 |
| Gross profit (adjusted)* | 651,941 | 458,191 |
| Profit before tax | 266,066 | 185,707 |
| Amortization of purchased intangibles | 49,650 | 19,489 |
| Share-based compensation | 7,173 | 5,484 |
| Post acquisition restructuring costs | 846 | 1,157 |
| Gain on foreign exchange | (942) | (5,141) |
| Share of loss of associate | 273 | 2,196 |
| Profit before tax (adjusted)* | 323,066 | 208,892 |
| Provision for tax | (90,268) | (60,891) |
| Net profit (adjusted)* | 232,798 | 148,001 |
| Profit from operations | 272,178 | 186,493 |
| Amortization of purchased intangibles | 49,650 | 19,489 |
| Share-based compensation | 7,173 | 5,484 |
| Post-acquisition restructuring costs | 846 | 1,157 |
| Gain on foreign exchange | (942) | (5,141) |
| Profit from operations (adjusted)* | 328,905 | 207,482 |

* Non-IFRS financial measures are used to calculate "adjusted" results discussed throughout the Annual Report.

# Consolidated Financial Statements

## Consolidated Balance Sheet at 31 December 2009

| | Note | 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 12 | 1,287,042 | 796,632 |
| Other intangible assets | 13 | 399,277 | 98,694 |
| Property, plant and equipment | 14 | 33,886 | 27,350 |
| Equity and other investments | 15 | 16,608 | 7,441 |
| Deferred tax asset | 17 | 24,015 | 13,467 |
| Total non-current assets | | 1,760,828 | 943,584 |
| **Current assets** | | | |
| Trade and other receivables | 16 | 275,450 | 176,806 |
| Inventories | | 486 | 715 |
| Cash and cash equivalents | | 242,791 | 199,218 |
| Total current assets | | 518,727 | 376,739 |
| Total assets | | 2,279,555 | 1,320,323 |
| **Current liabilities** | | | |
| Trade and other payables | 18 | (69,443) | (31,945) |
| Bank loan | 19 | (52,375) | (10,637) |
| Tax liabilities | | (43,338) | (27,905) |
| Deferred revenue | | (164,931) | (89,794) |
| Provisions | 20 | (2,731) | (426) |
| Total current liabilities | | (332,818) | (160,707) |
| Net current assets | | 185,909 | 216,032 |
| **Non-current liabilities** | | | |
| Bank loan | 19 | (145,152) | (26,594) |
| Deferred tax liabilities | 21 | (85,087) | (2,537) |
| Deferred revenue | | (8,576) | (9,414) |
| Other payables | | (1,020) | (1,171) |
| Provisions | 20 | (5,123) | — |
| Total non-current liabilities | | (244,958) | (39,716) |
| Total liabilities | | (577,776) | (200,423) |
| Net assets | | 1,701,779 | 1,119,900 |
| **Shareholders' equity** | | | |
| Share capital | 22 | 1,333 | 1,214 |
| Share premium account | | 1,130,767 | 798,279 |
| Capital redemption reserve | | 135 | 135 |
| Own shares | 23 | (845) | (905) |
| Merger reserve | | 27,589 | 27,589 |
| Stock compensation reserve | | 21,959 | 14,846 |
| Revaluation reserve | | 4,499 | 2,987 |
| Translation reserve | | (12,032) | (18,261) |
| Retained earnings | | 528,374 | 294,016 |
| Total equity | | 1,701,779 | 1,119,900 |

The financial statements of Autonomy Corporation plc, registered number 03175909, were approved by the Board of Directors and authorised for issue on 22 February 2010. They were signed on its behalf by:

Dr. Michael R. Lynch
Chief Executive Officer and Co-Founder

# Consolidated Financial Statements

## Consolidated Statement of Changes in Equity for the year ended 31 December 2009

| | Share capital (number) | Share capital $'000 | Share premium $'000 | Capital redemption reserve $'000 | Own shares $'000 | Merger reserve $'000 | Sub-total $'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2008 | 213,066,320 | 1,196 | 780,888 | 135 | (981) | 27,589 | 808,827 |
| Net profit | — | — | — | — | — | — | — |
| Other comprehensive income | — | — | — | — | — | — | — |
| Stock compensation charge | — | — | — | — | — | — | — |
| Share placing | — | — | — | — | — | — | — |
| Share options exercised | 2,750,877 | 18 | 17,391 | — | — | — | 17,409 |
| EBT options exercised | — | — | — | — | 76 | — | 76 |
| Tax movem'ts on stock options | — | — | — | — | — | — | — |
| At 31 December 2008 | 215,817,197 | 1,214 | 798,279 | 135 | (905) | 27,589 | 826,312 |
| Net profit | — | — | — | — | — | — | — |
| Other comprehensive income | — | — | — | — | — | — | — |
| Stock compensation charge | — | — | — | — | — | — | — |
| Share placing | 21,560,260 | 103 | 308,409 | — | — | — | 308,512 |
| Share options exercised | 3,196,847 | 16 | 24,079 | — | — | — | 24,095 |
| EBT options exercised | — | — | — | — | 60 | — | 60 |
| Tax movements on stock options (see note 10) | — | — | — | — | — | — | — |
| At 31 December 2009 | 240,574,304 | 1,333 | 1,130,767 | 135 | (845) | 27,589 | 1,158,979 |

| | Sub-total $'000 | Stock compensation reserve $'000 | Revaluation reserve $'000 | Translation reserve $'000 | Retaining earnings $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| At 1 January 2008 | 808,827 | 9,438 | 10,163 | 23,801 | 146,084 | 998,313 |
| Net profit | — | — | — | — | 131,749 | 131,749 |
| Other comprehensive income | — | — | (7,176) | (42,062) | — | (49,238) |
| Stock compensation charge | — | 5,484 | — | — | — | 5,484 |
| Share placing | — | — | — | — | — | — |
| Share options exercised | 17,409 | — | — | — | — | 17,409 |
| EBT options exercised | 76 | (76) | — | — | — | — |
| Tax movements on stock options | — | — | — | — | 16,183 | 16,183 |
| At 31 December 2008 | 826,312 | 14,846 | 2,987 | (18,261) | 294,016 | 1,119,900 |
| Net profit | — | — | — | — | 191,551 | 191,551 |
| Other comprehensive income | — | — | 1,512 | 6,229 | — | 7,741 |
| Stock compensation charge | — | 7,173 | — | — | — | 7,173 |
| Share placing | 308,512 | — | — | — | — | 308,512 |
| Share options exercised | 24,095 | — | — | — | — | 24,095 |
| EBT options exercised | 60 | (60) | — | — | — | — |
| Tax movements on stock options (see note 10) | — | — | — | — | 42,807 | 42,807 |
| At 31 December 2009 | 1,158,979 | 21,959 | 4,499 | (12,032) | 528,374 | 1,701,779 |

## Consolidated Statement of Comprehensive Income for the year ended 31 December 2009

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Net profit | 191,551 | 131,749 |
| Translation of overseas operations | 6,229 | (42,062) |
| Revaluation of equity investment | 1,512 | (7,176) |
| Other comprehensive income | 7,741 | (49,238) |
| Total comprehensive income | 199,292 | 82,511 |

Under IAS1 (revised) the company has included a statement of comprehensive income for the years ended 31 December 2008 and 2009. This revision has no impact on the balance sheets for 2009, 2008 or 2007. The 2007 balance sheet is available in the 2008 annual report, which is available on the company's website at www.autonomy.com under the heading "Investors".

# Consolidated Financial Statements

## Consolidated Cash Flow Statement for the year ended 31 December 2009

| | Note | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|---|
| Net cash from operating activities | 25 | 250,021 | 146,336 |
| Investing activities | | | |
| Interest received | | 1,127 | 3,321 |
| Purchases of property, plant and equipment and intangibles | | (34,429) | (14,285) |
| Investment in joint venture, associate and equity investments | | (6,449) | (2,327) |
| Expenditure on product development | | (24,722) | (11,159) |
| Acquisition of subsidiaries (net of cash acquired) | 24 | (630,052) | (6,226) |
| Net cash used in investing activities | | (694,525) | (30,676) |
| Financing activities | | | |
| Proceeds from issuance of shares, net of issuance costs | | 24,668 | 17,409 |
| Proceeds from share placing, net of issuance costs | | 308,512 | — |
| Interest on bank loan | | (5,340) | (1,943) |
| Repayment of bank loan | | (37,450) | (10,700) |
| Drawdown of bank loan, net of arrangement fee | | 196,154 | — |
| Net cash from financing activities | | 486,544 | 4,766 |
| Net increase in cash and cash equivalents | | 42,040 | 120,426 |
| Cash and cash equivalents at beginning of year | | 199,218 | 92,571 |
| Effect of foreign exchange rate changes | | 1,533 | (13,779) |
| Cash and cash equivalents at end of year | | 242,791 | 199,218 |

# Notes to the Consolidated Financial Statements

## 1. General Information

Autonomy Corporation plc is a company incorporated in England and Wales under the Companies Act 2006. The registered office is at Autonomy House, Cambridge Business Park, Cowley Road, Cambridge CB4 0WZ, UK. Autonomy Corporation plc is the ultimate holding company of the Autonomy group of companies (the "group"). The nature of the group's operations and its principal activities are set out on page 20.

The company's functional currency is sterling as that is the currency of the primary economic environment in which the company operates. The group's presentational currency is dollars as that is the currency of the primary economic environment in which the group operates. Foreign operations are included in accordance with the policies set out in note 2.

Adoption of new and current standards
In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

Standards affecting presentation and disclosure

| | |
|---|---|
| *IAS 1 (revised 2007) Presentation of Financial Statements* | IAS 1(2007) has introduced a number of changes in the format and content of the financial statements. In addition, the revised Standard has required the presentation of a consolidated statement of comprehensive income. |
| *IFRS 8 Operating Segments* | IFRS 8 is a disclosure Standard that has not resulted in any changes to the amounts reported (see note 5) |

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

| | |
|---|---|
| ▪ Amendment to IFRS 1 (Jan. 2010) | Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters |
| ▪ IFRS 9 | Financial Instruments |
| ▪ IAS 24 (revised Nov. 2009) | Related Party Disclosures |
| ▪ Amendment to IAS 32 (Oct. 2009) | Classification of Rights Issues |
| ▪ Amendments to IFRS 1 (Jul. 2009) | Additional Exemptions for First-time Adopters |
| ▪ IFRS for SMEs | IFRS for small and medium-sized entities |
| ▪ Amendments to IFRS 2 (Jun. 2009) | group Cash-settled Share-based Payment Transactions |
| ▪ Improvements to IFRSs 2009 (Apr. 2009) | Improvements to IFRSs 2009 |
| ▪ IFRS 1 (revised Nov. 2008) | First-time Adoption of International Financial Reporting Standards |
| ▪ IFRS 3 (revised Jan. 2008) | Business Combinations |
| ▪ Amendments to IAS 27 (Jan. 2008) | Consolidated and Separate Financial Statements |
| ▪ Improvements to IFRSs 2008 (May 2008) | Improvements to IFRSs 2008 |
| ▪ Amendments to IFRIC 14 (Nov. 2009) | Prepayments of a Minimum Funding Requirement |
| ▪ IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments |
| ▪ Improvements to IFRSs 2009 (Apr. 2009) | Improvements to IFRSs 2009 |
| ▪ IFRIC 18 | Transfers of Assets from Customers |
| ▪ IFRIC 17 | Distributions of Non-cash Assets to Owners |
| ▪ IFRIC 14 | IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

The directors do not expect that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the group except for treatment of acquisition of subsidiaries and associate when IFRS 3 (revised 2008), IAS 27 (revised 2008) and IAS 28 (revised 2008) come into effect for business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July 2009.

## 2. Significant Accounting Policies

*a) Basis of accounting*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of equity investments and financial instruments. The principal accounting policies adopted by the company are set out below.

The going concern basis has been adopted in preparing the financial statements, as described in more detail in note 3.

# Notes to the Consolidated Financial Statements

## 2. Significant Accounting Policies (continued)

*b) Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries, together the "group") made up to 31 December each year. Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

*c) Investments in associate*

An associate is an entity over which the group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associate are incorporated in these financial statements using the equity method of accounting except when classified as held for sale (see below). Investments in associate are carried in the balance sheet at cost as adjusted by post-acquisition changes in the group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associate in excess of the group's interest in the associate are not recognised. Any excess of the cost of acquisition over the group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the group's share of the fair values of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is credited in profit or loss in the period of acquisition. Where a group company transacts with an associate of the group, profits and losses are eliminated to the extent of the group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

*d) Goodwill*

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

For the purpose of impairment testing, goodwill is allocated to the group's cash-generating unit expected to benefit from the synergies of the combination. Goodwill is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit and goodwill is less than their combined carrying amount, the impairment loss is allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous US GAAP amounts subject to being tested for impairment at the date of transition to IFRS.

*e) Revenue recognition*

The group discloses revenue within two categories, namely sale of goods and rendering of services, as required by IAS 18. During 2009 there has been no change to the group's revenue recognition policies in any respect. The nature of the transactions that the group has entered into during 2009 is the same as in 2008 in all respects. To assist the reader in understanding the group's business the accounting policy set forth below has been reviewed and clarified, but does not represent any change in the group's accounting policy for the recognition or measurement of revenue.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales taxes.

Deferred revenues primarily relate to archiving and customer support and maintenance fees, which have been invoiced to the customer prior to the performance of these obligations. Deferred revenue is recognised rateably over the term of the contract, usually over a period of one to three years.

## 2. Significant Accounting Policies (continued)

i) Sale of goods

The group sells its products as licenses to resellers, OEMs and direct to end-users together with associated support and maintenance. In addition, the group also sells some of its products on a subscription basis.

Revenues from software license agreements are recognised where there is persuasive evidence of an agreement with a customer (contract and/or binding purchase order), delivery of the software has taken place, collectability is probable and the fee has been contractually agreed and is not subject to adjustment or refund (i.e is fixed and determinable). If an acceptance period is required, revenues are recognised upon the earlier of customer acceptance or the expiration of the acceptance period. Revenue is recognized on contracts providing that the customer passes defined credit-worthiness checks. If significant post-delivery obligations exist or if a sale is subject to customer acceptance, revenues are deferred until no significant obligations remain or acceptance has occurred.

The group enters into OEM and reseller arrangements that typically provide for fees payable to the group based on licensing of the group's software to third party customers. Sales are generally recognised as reported by the OEM or reseller and is based on the amount of product sold. Sales are recognised if all products subject to resale are delivered in the current period, no right of return policy exists, collection is probable and the fee is fixed and determinable.

Revenues from customer support and maintenance are recognised rateably over the term of the support period. If customer support and maintenance is included free or at a discount in a license agreement, these amounts are allocated out of the license fee at their fair market value based on the value established by independent sale of the customer support and maintenance to customers. Support and maintenance consists primarily of the supply of products, such as patches and updates, to the standard software.

Product revenues from the hosted business are separated, using the residual method, into capture and archiving. Revenues for capture are recognised in the period in which they are delivered. Revenues for archiving are recognised over the period that the customers have access to the group's software and proprietary storage technology. Product revenues from the hosted business relate to the execution of production operations on computers which the company runs in its data centres. Revenues are generated from the use of our software and computers and from us maintaining the data. Customers commit for periods between one month and up to three years. Revenues are generated in two different ways:

- Paid up front, usually one to three years, in which case the group has an obligation to process the data using the group's software and archive for the contracted length of time using the group's proprietary storage technology. Revenues are allocated between capture and archiving using the residual method, with the archiving element deferred and recognized rateably over the contracted period of archiving.

- Paid on a pay-as-you-go basis, in which case the charge is based on the volumes of data ingested and stored each month. Revenues for pay-as-you-go customers are recognized on a monthly basis as the product is made available to customers. There is no deferred revenue in relation to these customers.

ii) Rendering of services

Consulting and training revenues are included within rendering of services.

Consulting revenues are primarily related to implementation services performed on a time and materials basis under separable service arrangements related to the installation of the group's software products. Revenues from consulting and training services are recognised as services are performed. If a transaction includes both license and service elements, license fee revenue is recognised upon shipment of the software, provided services do not include significant customisation or modification of the base product and the payment terms for licenses are not subject to acceptance criteria. In cases where license fee payments are contingent upon the acceptance of services, revenues from both the license and the service elements are deferred until the acceptance criteria are met.

iii) Cost of revenues

Cost of license revenues includes the cost of royalties due to third party licenses, costs of product media, product duplication and manuals.

*f) Leasing*

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

*g) Foreign currencies*

Transactions in currencies other than the functional currency of the entity concerned are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated into US. dollars at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

# Notes to the Consolidated Financial Statements

## 2. Significant Accounting Policies (continued)

On consolidation, the assets and liabilities of the group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are denominated as assets and liabilities of the foreign entity and translated at the closing rate.

*h) Profit from operations*

Profit from operations is stated before investment income and finance costs.

Operating costs are categorized into research and development, sales and marketing, general and administrative, and other costs. Research and development costs comprise the costs of the research and development teams; sales and marketing costs comprise the costs of the sales force, commissions and costs of promoting new products and entering into new markets; general and administration costs comprise costs of administration and payroll costs of staff not attributable to other activities.

*i) Taxation*

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associate, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority, and the group intends to settle its current tax assets and liabilities on a net basis.

*j) Property, plant and equipment*

Leasehold improvements, fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

| | |
|---|---|
| Leasehold improvements | Over shorter of economic useful life and lease term |
| Fixtures and equipment | Over 3–5 years |

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

*k) Internally-generated intangible assets - research and development expenditure*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

# Notes to the Consolidated Financial Statements

## 2. Significant Accounting Policies (continued)

An internally-generated intangible asset arising from the group's product development is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably; and
- the product from which the asset arises meets the group's criteria for technical feasibility.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives, which is 3 years. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

*l) Other intangible assets excluding goodwill*

Other intangible assets excluding goodwill are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives, on the following bases:

| | |
|---|---|
| Patents and trademarks | 3 years |
| Software licenses | 1 – 3 years |
| Purchased technology | 3 – 7 years* |
| Customer relationships | 3 – 11 years* |
| Brand names | 3 – 10 years* |

* the estimated useful lives for these purchased intangible assets, acquired through acquisition, are based on the independent valuation reports prepared.

*m) Impairment of tangible and intangible assets excluding goodwill*

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

*n) Inventories*

Inventories are stated at the lower of cost and net realisable value.

*o) Provisions*

Provisions are recognized when the group has a present obligation as a result of a past event, and it is probable that the group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

*p) Share-based payments*

The group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2004.

The group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest. Fair value is measured by use of a Black Scholes model.

## 2. Significant Accounting Policies (continued)

### *q) Financial instruments*

Financial assets and financial liabilities are recognised in the group's balance sheet when the group becomes a party to the contractual provisions of the instrument.

Financial Assets
Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL
Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the group's documented risk management or investment strategy, and information about the group is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 27.

Available for sale financial assets
Unlisted shares and listed redeemable notes held by the group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 29. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

# Notes to the Consolidated Financial Statements

## 2. Significant Accounting Policies (continued)

Loans and receivables
Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

De-recognition of financial assets
The group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the group retains substantially all the risks and rewards of ownership of a transferred financial asset, the group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities
All financial liabilities are classified as 'other financial liabilities'.

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

# Notes to the Consolidated Financial Statements

## 2. Significant Accounting Policies (continued)

De-recognition of financial liabilities
The group derecognises financial liabilities when, and only when, the group's obligations are discharged, cancelled or they expire.

Derivative financial instruments
The group does not use derivative financial instruments.

## 3. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

*a) Critical judgements in applying the group's accounting policies*

In the process of applying the group's accounting policies, which are described in note 2, management have made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are discussed below).

Revenue recognition
There are no significant judgements which management consider have a material impact on the financial statements. The accounting policy set out in note 2 has been followed. The only area where management is required to exercise judgement relates to collectability. Management uses extensive credit checks to evaluate whether a potential customer is credit worthy prior to a sale. If the customer does not pass the group's rigorous credit checks then the revenue is deferred and recognised only upon cash receipt from the customer.

Going concern
The group has considerable financial resources together with a significant number of customers across different geographic areas and industries. At 31 December 2009 the group has cash balances of $242.8 million and total debt of $197.5 million. The group has no net debt. As a consequence, the directors believe that the group is well placed to manage business risks successfully despite the current uncertain economic outlook.

After making enquiries and considering the cash flow forecasts of the group the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the twelve month consolidated financial statements.

*b) Key sources of estimation uncertainty*

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Recoverability of internally generated intangible assets
During the year $24.7 million (2008: $11.2 million) of internally generated intangible assets were capitalised as required in accordance with IAS 38. Management have assessed expected revenues to be generated from these assets and deemed that no adjustment is required to the carrying value of the assets. Management have also reviewed the assets for impairment and deemed that no impairment is required.

Impairment of goodwill
Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating unit (CGU) to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows of the CGU and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was $1,287.0 million (2008: $796.6 million).

Trade receivables
The directors consider that the carrying amount of trade receivables approximates their fair value. A provision has been made for estimated unrecoverable amounts based on information available to management. Changes in collectability of trade receivables may impact the level of provision required.

## 4. Revenue

An analysis of the group's revenue is as follows:

| | 2009 | 2008 |
|---|---|---|
| Continuing operations | $'000 | $'000 |
| Sales of goods (see note 2) | 704,073 | 479,793 |
| Rendering of services (see note 2) | 35,615 | 23,436 |
| Total revenues (excluding interest receivable) | 739,688 | 503,229 |
| Interest receivable | 1,205 | 3,353 |
| Total revenues (as defined by IAS 18) | 740,893 | 506,582 |

# Notes to the Consolidated Financial Statements

## 5. Segmental Analysis

The company is organized internally along group function lines with each line reporting to the group's chief operating decision maker, the Chief Executive Officer. The primary group function lines include: finance; operations, including legal, HR, and operations, marketing, sales and technology. Each of these functions supports the overall business activities, however they do not engage in activities from which they earn revenues or incur expenditure in their operations with each other. No discrete financial information is produced for these function lines. The company integrates acquired businesses and products into the Autonomy model such that separate management financial data on these entities is not maintained post acquisition.

The group has operations in various geographic locations however no discrete financial information is maintained on a regional basis. Decisions around the allocation of resources are not determined on a regional basis and the chief operating decision maker does not assess the group's performance on a geographic basis.

The group is a software business that utilises its single technology in a set of standard products to address unique business problems associated with unstructured data. The group offers over 500 different functions and connectors to over 400 different data repositories as part of its product suite. Each customer selects from a list of options, but underneath from a single unit of the proprietary core technology platform. As a result, no analysis of revenues by product type can be provided.

Each of the group's virtual brands is founded on the group's unique Intelligent Data Operating Layer (IDOL), the group's core infrastructure for automating the handling of all forms of unstructured information. Separate financial information is not prepared for each virtual brand to assess its performance for the purpose of resource allocation decisions. The pervasive nature of the group's technology across each brand requires decisions to be taken at the group level and financial information is prepared on that basis.

A significant proportion of the group's cost base is fixed and represents payroll and property costs which relate to the multiple function lines of the group. As a result the business model drives enhanced performance though growing sales and accordingly group wide revenue generation is the key performance metric that is monitored by the chief operating decision maker. The revenue financial data used to monitor performance is prepared and compiled on a group wide basis. No separate revenue financial analysis is maintained on revenues from any of the virtual brands.

The company's chief operating decision maker is the group's Chief Executive Officer, who evaluates the performance of the company on a group wide basis and any elements within it on the basis of information from junior executives and group financial information and is ultimately responsible for entity-wide resource allocation decisions.

As a consequence of the above factors the group has one operating segment in accordance with IFRS 8 "Operating Segments". IFRS 8 also requires information on a geographic basis and that information is shown below.

The group's operations are located primarily in the United Kingdom, the US and Canada. The group also has a significant presence in a number of other European countries as well as China, Japan, India, Singapore and Australia. The following tables provide an analysis of the group's sales and net assets by geographical market based upon the location of the group's customers.

| | Revenue by Geographical Market | |
|---|---|---|
| | 2009 | 2008 |
| | $'000 | $'000 |
| Americas | 517,185 | 324,287 |
| Rest of World | 222,503 | 178,942 |
| | 739,688 | 503,229 |

Revenues invoiced by UK entities – the group's country of domicile – were $56 million (2008: $60 million).

# Notes to the Consolidated Financial Statements

## 5. Segmental Analysis (continued)

| Result | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Americas | ROW | Total | Americas | ROW | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Result by region | 212,775 | 59,307 | 272,082 | 139,104 | 43,405 | 182,509 |
| Post-acq'n restructuring costs | | | (846) | | | (1,157) |
| Gain on foreign exchange | | | 942 | | | 5,141 |
| Profit from operations | | | 272,178 | | | 186,493 |
| Share of loss of associate | | | (273) | | | (2,196) |
| Interest receivable | | | 1,205 | | | 3,353 |
| Interest payable | | | (7,044) | | | (1,943) |
| Profit before tax | | | 266,066 | | | 185,707 |
| Tax | | | (74,515) | | | (53,958) |
| Profit for the period | | | 191,551 | | | 131,749 |

| Other Information | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Americas | ROW | Total | Americas | ROW | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Prop., plant & equip. add'ns | 21,672 | 454 | 22,126 | 13,340 | 945 | 14,285 |
| Purchased intangible add'ns | 311,300 | — | 311,300 | — | — | — |
| Other intangible asset add'ns | 49,092 | 4,620 | 53,712 | 7,831 | 3,328 | 11,159 |
| Depreciation | 14,566 | 1,634 | 16,200 | 12,539 | 1,556 | 14,095 |
| Amortization | 61,317 | 3,566 | 64,883 | 21,038 | 3,275 | 24,313 |
| Balance Sheet | | | | | | |
| Assets by region | 789,578 | 198,552 | 988,130 | 417,742 | 104,130 | 521,872 |
| Interests in associate | | | 4,383 | | | 1,819 |
| Goodwill | | | 1,287,042 | | | 796,632 |
| Consolidated total assets | | | 2,279,555 | | | 1,320,323 |
| Liabilities by region | (529,016) | (48,760) | (577,776) | (146,447) | (53,976) | (200,423) |

Total assets held in the U.K. as at 31 December 2009 were $182 million (2008: $94 million).

## 6. Profit from Operations

Profit from operations has been arrived at after charging (crediting):

| | 2009 | 2008 |
|---|---|---|
| | $'000 | $'000 |
| Net foreign exchange gains | (942) | (5,141) |
| Research and development costs | | |
| Expensed in income statement | 98,785 | 78,410 |
| Depreciation of property, plant and equipment charged in operating expenses (see note 14) | 16,200 | 14,095 |
| Amortization of intangibles charged in cost of sales (see note 13) | 49,650 | 19,489 |
| Amortization of intangibles charged in operating expenses (see note 13) | 15,233 | 4,824 |
| Staff costs (see note 8) | 189,557 | 159,877 |
| Post acquisition restructuring costs (see below) | 846 | 1,157 |
| Auditors' remuneration for audit services (see note 7) | 1,777 | 1,153 |

The post acquisition restructuring costs in 2009 relate to redundancy payments and related costs in relation to reductions in force following the acquisition of Interwoven, Inc. The amounts in 2008 were for similar items but related to the acquisitions of Meridio and ZANTAZ in 2007.

# Notes to the Consolidated Financial Statements

## 7. Auditors' Remuneration

A more detailed analysis of auditors' remuneration on a worldwide basis is as follows:

| | 2009 | 2008 |
|---|---|---|
| | $'000 | $'000 |
| Fees payable to the company's auditors for the audit of the company's annual accounts | 947 | 526 |
| Fees payable to the company's auditors and their associate for other services to the group | | |
| Audit of the company's subsidiaries pursuant to legislation | 830 | 627 |
| Total audit fees | 1,777 | 1,153 |
| Other services pursuant to legislation | 125 | 284 |
| Tax services | 67 | 280 |
| Corporate finance services | 572 | 623 |
| Total non-audit fees | 764 | 1,187 |

The corporate finance fees in 2008 and 2009 related to due diligence work in connection with the acquisition of Interwoven, Inc.

## 8. Staff Costs

The average monthly number of employees (including executive directors) was:

| | 2009 | 2008 |
|---|---|---|
| | (number) | (number) |
| Administration and management | 173 | 137 |
| Technical personnel | 1,001 | 853 |
| Sales and marketing | 510 | 258 |
| | 1,684 | 1,248 |
| Aggregate remuneration comprised: | $'000 | $'000 |
| Wages and salaries | 198,936 | 158,414 |
| Social security costs | 14,791 | 11,692 |
| Pension costs | 552 | 930 |
| | 214,279 | 171,036 |
| Costs allocated to internally generated asset | (24,722) | (11,159) |
| Included in profit from operations | 189,557 | 159,877 |

## 9. Interest Receivable

| | 2009 | 2008 |
|---|---|---|
| | $'000 | $'000 |
| Interest on bank deposits | 1,205 | 3,353 |

## 10. Tax

| | 2009 | 2008 |
|---|---|---|
| | $'000 | $'000 |
| Current tax: | | |
| Current year | 75,147 | 53,252 |
| Prior year | (2,912) | (1,539) |
| | 72,235 | 51,713 |
| Deferred tax: | | |
| Origination and reversal of timing differences | 2,280 | 2,245 |
| | 74,515 | 53,958 |

## 10. Tax (continued)

UK Corporation tax is calculated at 28% (2008: 28.5%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The charge for the year can be reconciled to the profit as set forth in the income statement as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | $'000 | % | $'000 | % |
| Profit before tax | 266,066 | | 185,707 | |
| Tax at UK corporation tax rate of 28% (2008: 28.5%) | 74,498 | 28.0% | 52,926 | 28.5% |
| Tax effect of non-deductible expenses | 1,923 | 0.7% | 627 | 0.3% |
| Tax effect of non-taxable income | (1,286) | (0.5%) | — | — |
| Research and Development tax credits | (1,873) | (0.7%) | (428) | (0.2%) |
| Utilization of tax losses not previously recognized | (472) | (0.2%) | (3,617) | (1.9%) |
| Other differences | (4,591) | (1.7%) | 2,798 | 1.5% |
| Effect of different tax rates | 9,228 | 3.5% | 3,191 | 1.7% |
| Prior year adjustment | (2,912) | (1.1%) | (1,539) | (0.8%) |
| Tax expense and effective tax rate for the year | 74,515 | 28.0% | 53,958 | 29.1% |

Under IAS 12 Income Taxes the amount of tax benefit that can be recognised in the Income statement in respect of stock options is limited by reference to the IFRS2 charge. Any excess amount of tax benefit in respect of stock options is recognised in equity. There are a number of movements within equity relating to tax items and the table below provides an analysis of all movements:

| | 2009 | 2008 |
|---|---|---|
| | $'000 | $'000 |
| *Relating to current tax:* | | |
| Stock option tax deductions arising during the period | (12,173) | (11,900) |
| Utilization of tax losses during the period relating to stock option deductions of a prior period | (12,424) | — |
| *Relating to deferred tax:* | | |
| Utilization of previously recognised deferred tax asset (see note 17) | 12,173 | 11,900 |
| Deferred tax asset recognised on stock options standing at a gain at year end (see note 17) | (17,906) | (16,183) |
| Deferred tax asset recognised on losses relating to stock options deductions of a prior period (see note 21) | (12,477) | — |
| Total tax credit to equity | (42,807) | (16,183) |

## 11. Earnings Per Share

The calculation of the basic and diluted earnings per share is based on the following data:

| | 2009 | 2008 |
|---|---|---|
| | $'000 | $'000 |
| Earnings for the purposes of basic and diluted earnings per share being net profit | 191,551 | 131,749 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 237,531 | 214,523 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | 3,024 | 2,635 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 240,555 | 217,158 |

Basic and diluted earnings per share (adjusted) of $0.98 and $0.97 respectively (2008: $0.69 and $0.68, respectively) is calculated by dividing the net profit (adjusted) amounts shown on page 36 by the share denominators shown above.

## 12. Goodwill

| Cost | $'000 |
|---|---|
| At 1 January 2008 | 820,147 |
| Movements in current year | (5,853) |
| Exchange differences | (17,662) |
| At 1 January 2009 | 796,632 |
| Acquisition of Interwoven, Inc (see note 24) | 485,728 |
| Exchange differences | 4,682 |
| At 31 December 2009 | 1,287,042 |

| Accumulated impairment losses | |
|---|---|
| At 1 January 2008 | — |
| At 1 January 2009 | — |
| At 31 December 2009 | — |

| Carrying amount | |
|---|---|
| At 31 December 2009 | 1,287,042 |
| At 31 December 2008 | 796,632 |

The movements in the prior year relate to adjustments to the goodwill of the company's prior year acquisitions, ZANTAZ Inc. and Meridio Holdings Limited.

The group tests annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The group is required to allocate goodwill to each cash generating unit ('CGU') and then compile value in use calculations for each CGU. As described in note 5 the group has only one reporting segment under IFRS 8 Operating Segments. The acquisition and integration process adopted by the group is such that the acquired entities are rapidly integrated into the group such that it is not possible to separately identify results from acquired operations within one month of the acquisition date. At a technical level, the companies' products are rapidly integrated to enable the launch of new IDOL powered technologies. This technical upgrading to enhanced IDOL functionality can take place within days of completion. The acquired businesses almost immediately cease to sell their traditional products, but rather sell the newly integrated products based on IDOL. At an organizational level, all departments are merged. Resources are managed on a group-wide basis and reporting lines changed immediately such that functional heads (e.g sales, marketing, legal, operations etc) manages a group-wide pool of resources and makes decisions based upon information prepared on a group-wide basis. No separate financial information is maintained for acquired operations post acquisition.

The risks and rewards of the group's operations are therefore identical across all of its virtual brands and geographies. This is a consequence of the unique technology offering where all of the group's virtual brands are based on the same core IDOL technology and the fact that sales are made to multinational organizations and governments with the same license being deployed across regional boundaries. Consequently the group has one CGU and all goodwill is allocated to that unit. This is consistent with the way management monitor, and make decisions about, the business and is consistent with the approach taken in previous years.

The key assumptions used in determining the value in use are:

| Assumption | How determined |
|---|---|
| Revenues | Management have used growth rates of 15% for years 1 to 5 and then 5% for years 6 to 10. The growth rates for years 1 to 5 are consistent with actual rates achieved over the last 5 years. |
| Costs | Expenses have been assumed to remain a constant percentage of sales throughout the forecast period. The percentages are based on 2009 levels. The directors consider this a conservative assumption as historic results have shown that as revenues increase these percentages decline due to the operating leverage within the pure software model. |
| Discount rate | The discount rate of 9% applied to the cash flows is based on the weighted average cost of capital of the company as calculated using the industry standard formula. |
| Sensitivity | The group has prepared a sensitivity analysis which eliminates any revenue growth and also increases the discount rate to 20%. |
| Forecast period | The group's impairment model covers a forecast 10 year period. The directors consider 10 years to be an appropriate period to consider but note that it might reasonably extend beyond this period which would provide further upside sensitivity. |

Based on all of the above the directors have concluded that no impairment of goodwill is required to be recorded.

# Notes to the Consolidated Financial Statements

## 13. Other Intangible Assets

| | Patents, licenses and trademarks | Internally generated assets | Purchased intangibles: Purchased technology | Purchased intangibles: Customer relationships | Purchased intangibles: Brand names | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Cost** | | | | | | |
| At 1 January 2008 | 9,574 | 10,325 | 40,876 | 49,749 | 38,883 | 149,407 |
| Exchange differences | (1,328) | (1,402) | (2,186) | (1,080) | (129) | (6,125) |
| Additions – internally generated | — | 11,159 | — | — | — | 11,159 |
| At 1 January 2009 | 8,246 | 20,082 | 38,690 | 48,669 | 38,754 | 154,441 |
| Exchange differences | 775 | 466 | 140 | 280 | 33 | 1,694 |
| Additions – internally generated | — | 24,722 | — | — | — | 24,722 |
| Other additions | 28,990 | — | — | — | — | 28,990 |
| Acq'n of Interwoven (note 24) | — | — | 101,200 | 171,200 | 38,900 | 311,300 |
| At 31 December 2009 | 38,011 | 45,270 | 140,030 | 220,149 | 77,687 | 521,147 |
| **Amortization** | | | | | | |
| At 1 January 2008 | 9,526 | 2,181 | 14,489 | 5,208 | 4,047 | 35,451 |
| Exchange differences | (1,547) | (183) | (1,926) | (322) | (39) | (4,017) |
| Charge for the year | 244 | 4,580 | 8,438 | 6,673 | 4,378 | 24,313 |
| At 1 January 2009 | 8,223 | 6,578 | 21,001 | 11,559 | 8,386 | 55,747 |
| Exchange differences | 766 | 210 | 82 | 163 | 19 | 1,240 |
| Charge for the year | 6,370 | 8,863 | 22,996 | 19,160 | 7,494 | 64,883 |
| At 31 December 2009 | 15,359 | 15,651 | 44,079 | 30,882 | 15,899 | 121,870 |
| **Carrying amount** | | | | | | |
| At 31 December 2009 | 22,652 | 29,619 | 95,951 | 189,267 | 61,788 | 399,277 |
| At 31 December 2008 | 23 | 13,504 | 17,689 | 37,110 | 30,368 | 98,694 |

At 31 December 2009, the group had no other contractual commitments for the acquisition of other intangible assets (2008: $nil).

## 14. Property, Plant and Equipment

| | Leasehold improvements | Fixtures and fittings | Computer equipment | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **Cost** | | | | |
| At 1 January 2008 | 9,349 | 3,299 | 32,824 | 45,472 |
| Additions | 2,769 | 1,336 | 10,180 | 14,285 |
| Disposals | (822) | (211) | (7,462) | (8,495) |
| Exchange differences | (899) | (295) | (2,388) | (3,582) |
| At 1 January 2009 | 10,397 | 4,129 | 33,154 | 47,680 |
| Additions | 4,598 | 1,936 | 15,892 | 22,126 |
| Disposals | (196) | (2,875) | (1,040) | (4,111) |
| Exchange differences | 531 | 853 | 1,128 | 2,512 |
| At 31 December 2009 | 15,330 | 3,743 | 49,134 | 68,207 |
| **Accumulated depreciation and impairment** | | | | |
| At 1 January 2008 | 2,095 | 2,127 | 12,462 | 16,684 |
| Charge for the year | 1,721 | 674 | 11,700 | 14,095 |
| Disposals | (822) | (211) | (7,109) | (8,142) |
| Exchange differences | (13) | (640) | (1,654) | (2,307) |
| At 1 January 2009 | 2,981 | 1,950 | 15,399 | 20,330 |
| Charge for the year | 2,431 | 876 | 12,893 | 16,200 |
| Disposals | (168) | (2,874) | (1,024) | (4,066) |
| Exchange differences | 216 | 329 | 1,312 | 1,857 |
| At 31 December 2009 | 5,460 | 281 | 28,580 | 34,321 |
| **Carrying amount** | | | | |
| At 31 December 2009 | 9,870 | 3,462 | 20,554 | 33,886 |
| At 31 December 2008 | 7,416 | 2,179 | 17,755 | 27,350 |

# Notes to the Consolidated Financial Statements

## 14. Property, Plant and Equipment (continued)

At 31 December 2009, the group had no contractual commitments for the acquisition of property, plant and equipment (2008: $nil).

## 15. Equity and Other Investments

| | 2009 | 2008 |
|---|---|---|
| | $'000 | $'000 |
| Associate | 4,383 | 1,819 |
| Other investments | 12,225 | 5,622 |
| | 16,608 | 7,441 |

*a) Investments in associate*

| | 2009 | 2008 |
|---|---|---|
| | $'000 | $'000 |
| At beginning of year | 1,819 | 3,909 |
| Exchange movements | 685 | (2,183) |
| Additions | 2,152 | 2,289 |
| Share of loss of associate for year | (273) | (2,196) |
| At end of year | 4,383 | 1,819 |

The aggregated amounts in relation to the associate undertaking are shown below:

| | 2009 | 2008 |
|---|---|---|
| | $'000 | $'000 |
| Total assets | 11,304 | 11,736 |
| Total liabilities | (10,705) | (10,116) |
| Loss | (680) | (5,490) |

*b) Other investments*

| | 2009 | 2008 |
|---|---|---|
| | $'000 | $'000 |
| Available for sale investments carried at fair value | | |
| Quoted shares | 11,840 | 5,272 |
| Financial asset held at fair value through profit and loss | | |
| Unquoted shares | 385 | 350 |
| Total equity and other investments | 12,225 | 5,622 |

During the year the group increased its interest in blinkx Plc to 14% (2008: 10%) following its participation in a placing completed by blinkx Plc.

Dr. Lynch is a non executive director of blinkx Plc. He does not have authority or responsibility for planning, directing or controlling the activities of that entity and does not participate in the financial and operating policy decisions of that business. During 2009 the total value of software purchased by blinkx from Autonomy and other business transactions was $nil.

Quoted investments are subject to market risk and can increase or decrease in value depending on the share price of the relevant instruments. This investment has been classified as available for sale under IAS 39, and all changes in fair value have been recognised directly in equity during the period. No amounts (2008: $nil) have been removed from equity and recognised in the income statement for the period.

The unquoted investments included above represent investments in privately owned companies. The fair values of these investments are based on latest financial information available for each entity. The carrying value is considered in light of the net asset value and other known factors which have an impact on the valuation of the respective entities. An impairment charge of $nil (2008: $nil) was incurred during the year.

## 16. Other Financial Assets

*a) Trade and other receivables*

| | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|
| Amounts due from customers | 251,593 | 153,553 |
| Allowance for doubtful debts | (21,374) | (12,301) |
| Trade receivables, net | 230,219 | 141,252 |
| Other receivables | 45,231 | 35,554 |
| | 275,450 | 176,806 |

The average credit period for trade receivables is 88 (2008: 84) days. The DSO calculation is derived by eliminating sales tax from the net trade receivables balance, dividing by the last quarter's sales, and then multiplying by 90 (days).

The group has credit risk with respect to trade receivables due from its customers. Autonomy has over 20,000 customers spread across diverse industries and geographical areas and hence the concentration of credit risk from trade receivables is limited due to the large and broad customer base. A large proportion of the group's customer base includes various governments and large blue-chip companies which also limits the exposure to credit risk. The group has no material risk associated with new customers or resellers who the group has no experience of trading with. No customer accounts for more than 10% of revenues (2008: Nil). Allowance is made for bad and doubtful debts based on management's assessment of the risk of each individual debt taking into account the ageing profile, experience and circumstance. Interest charged when amounts from customers are past due is not material. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased. The group does not have any debtors with renegotiated terms.

Included in the group's trade receivables balance are debtors with a carrying amount of $45.8 million (2008: $47.9 million) which are past due at the reporting date and not impaired.

| Ageing of past due but not impaired receivables | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|
| 0 - 30 days | 27,056 | 21,160 |
| 30 - 60 days | 3,816 | 5,676 |
| 60 - 90 days | 2,235 | 4,417 |
| Over 90 days | 12,689 | 16,633 |
| | 45,796 | 47,886 |

The amount due over 90 days includes an amount of $7.6 million (2008: $3.0 million) in relation to various international government agencies.

The remaining balance of $184.4 million (2008: $93.4 million) is not yet due. Of this balance $9.2 million (2008: $6.5 million) is due after one year. The group's allowance for doubtful debts increased to $21.4 million (2008: $12.3 million). The charge for the year, net of amount utilized and foreign exchange movements, was $7.1 million (2008: $6.8 million).

Trade receivables that are past due are provided for based on estimated irrecoverable amounts determined by reference to past default experience and any other relevant circumstances. In determining the recoverability of a trade receivable the group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts. No individual debt accounts for more than 10% of this balance in either year. Other receivables include a balance of $2.4 million (2008: $6.0 million) which is due after more than one year.

*b) Bank balances and cash*

Bank balances and cash comprise cash held by the group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

*c) Credit risk*

The group's principal financial assets are bank balances and cash, trade and other receivables.

The group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the group's management based on prior experience and their assessment of the current economic environment. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

# Notes to the Consolidated Financial Statements

## 16. Other Financial Assets (continued)

Other than as noted in a) above, the group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

## 17. Deferred Tax Asset

| | Tax losses | Stock option losses | Accelerated tax depreciation | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| At 1 January 2008 | 234 | 8,628 | — | 8,862 |
| Transfers from current tax creditor | — | (11,900) | — | (11,900) |
| Credited to income statement | — | 1,864 | — | 1,864 |
| Credited to equity | — | 16,183 | — | 16,183 |
| Foreign exchange movement | — | (1,542) | — | (1,542) |
| At 1 January 2009 | 234 | 13,233 | — | 13,467 |
| Transfers from current tax creditor | — | (12,173) | — | (12,173) |
| Credited to income statement | — | — | 4,419 | 4,419 |
| Credited to equity | — | 17,906 | — | 17,906 |
| Foreign exchange movement | — | 396 | — | 396 |
| At 31 December 2009 | 234 | 19,362 | 4,419 | 24,015 |

The group has set up a deferred tax asset in respect of the future tax benefits that are expected to be received when stock options are exercised. The amount of credit that can be recognised in the income statement is limited under IAS12 and any remaining credit is taken to equity.

At the balance sheet date, the group has an unrecognised deferred tax asset in respect of unused tax losses of $82 million (2008: $97 million) available for offset against future profits against which no deferred tax asset has been recognised due to uncertainty as to whether those losses will be available to offset against future profits. These losses expire at various dates from 2010 through 2027. See note 21 for further disclosures regarding utilisation of tax losses.

In 2008 and 2009 temporary differences arising in connection with interests in subsidiaries, associate and joint ventures are immaterial.

## 18. Other Financial Liabilities

| | 2009 | 2008 |
|---|---|---|
| | $'000 | $'000 |
| Trade payables | 14,926 | 12,434 |
| Other payables | 54,517 | 19,511 |
| | 69,443 | 31,945 |

The average credit period for trade purchases for the group is 43 days (2008: 44) days. The directors consider that the carrying amount of trade and other payables approximates to their fair value. No interest has been charged by suppliers in respect of overdue amounts in either year.

## 19. Bank Loan

| | 2009 | 2008 |
|---|---|---|
| | $'000 | $'000 |
| Bank loan | 197,527 | 37,231 |
| The borrowings are repayable as follows: | | |
| On demand or within one year | 52,375 | 10,637 |
| In the second year | 78,745 | 10,638 |
| In the third to fifth years inclusive | 66,407 | 15,956 |
| | 197,527 | 37,231 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | (52,375) | (10,637) |
| Amount due for settlement after 12 months | 145,152 | 26,594 |

The loan is denominated in U.S. dollars and carries a floating interest rate of LIBOR plus 2.25%, thus exposing the group to potential cash flow interest rate risk. The directors estimate the fair value of the loan to be the same as the amounts shown above.

## 19. Bank Loan (continued)

The loan is subject to certain financial and other covenants which have all been met during the year. The loan is covered by a guarantee from Autonomy Corporation plc but is not secured against any assets of the group.

## 20. Provisions

| | Restructuring provision | Onerous lease provision | Total |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| At 1 January 2008 | 102 | 1,254 | 1,356 |
| Exchange movements | — | (102) | (102) |
| Utilized in period | (102) | (726) | (828) |
| At 1 January 2009 | — | 426 | 426 |
| Exchange movements | — | (6) | (6) |
| Acquisition of Interwoven, Inc. | 1,583 | 9,831 | 11,414 |
| Utilized in period | (1,583) | (2,397) | (3,980) |
| At 31 December 2009 | — | 7,854 | 7,854 |

| | 2009 | 2008 |
|---|---|---|
| | $'000 | $'000 |
| Included in current liabilities | 2,731 | 426 |
| Included in non-current liabilities | 5,123 | — |
| | 7,854 | 426 |

The onerous lease provision at the beginning of the year related to a number of properties within the group and the provision represents management's best estimate of the liability. This balance was fully utilized during 2009.

The remaining obligations relate to liabilities assumed following the acquisition of Interwoven, Inc. Prior to acquisition Interwoven completed a restructuring programme which included both a reduction in force and a consolidation of properties. The result of this was the recording of both restructuring and onerous lease provisions. These are expected to be utilised during the next 5 years.

## 21. Deferred Tax Liabilities

| | 2009 | 2008 |
|---|---|---|
| | $'000 | $'000 |
| At 1 January 2009 | 2,537 | — |
| Charged to income statement | 6,699 | 2,537 |
| Acquisition of Interwoven, Inc (see note 24) | 88,074 | — |
| Credited directly to equity | (12,477) | — |
| Foreign exchange movements | 254 | — |
| At 31 December 2009 | 85,087 | 2,537 |

In situations where the company acquires subsidiaries and recognizes deferred tax liabilities on purchased intangibles and deferred tax assets in respect of tax losses, the company offsets these assets and liabilities to the extent that they arise in the same tax jurisdictions in accordance with IAS 12 *Income Taxes*. The movement in the year relates to the recognition of a net deferred tax liability arising from the acquisition of Interwoven Inc., the current period utilization of tax losses against group taxable profits, and the recognition of any additional tax losses. The closing deferred tax liability includes net deferred tax liabilities on purchased intangibles from the group's acquisitions of $82.4 million (2008: $2.5 million). This comprises gross deferred tax liabilities of $136.7 million (2008: $32.0 million) offset by gross deferred tax assets of $54.3 million (2008: $29.5 million).

## 22. Share Capital

| | 2009 | 2008 |
|---|---|---|
| | $'000 | $'000 |
| Authorized: | | |
| 600,000,000 ordinary shares of 1/3p each | 3,300 | 3,300 |
| Issued and fully paid: | | |
| 240,574,304 ordinary shares of 1/3p each | 1,333 | 1,214 |
| (2008 – 215,817,197 ordinary shares of 1/3p each) | | |

# Notes to the Consolidated Financial Statements

## 22. Share Capital (continued)

The company has one class of ordinary shares which carry no right to fixed income. The movement in 2009 consists of the issuance of 21,560,260 shares in relation to a share placing in January 2009. The balance of 3,196,847 shares relates to employee stock option exercises. The movement in issued share capital during 2008 consists solely of the issuance of 2,750,877 shares in relation to employee stock option exercises.

## 23. Own Shares

| | Own Shares |
|---|---|
| | $'000 |
| Balance at 1 January 2008 | 981 |
| Disposed of on exercise of options | (76) |
| Balance at 1 January 2009 | 905 |
| Disposed of on exercise of options | (60) |
| Balance at 31 December 2009 | 845 |

The own shares reserve represents the cost of shares the company purchased in the market and are held by the Autonomy Corporation plc Employee Benefit Trust to satisfy options under the group's UK share options scheme (see note 27). At 31 December 2009 the Trust held 417,969 shares (2008: 447,594).

## 24. Acquisition of Interwoven, Inc.

On 17 March 2009 the group acquired 100% of the issued share capital of Interwoven Inc., a global leader in content management software. The acquisition has been accounted for using the purchase method of accounting.

| | Interwoven book value | Provisional fair value adjustments | Provisional fair value |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Net assets acquired: | | | |
| Purchased intangibles (see note 13) | — | 311,300 | 311,300 |
| Other assets | 26,942 | — | 26,942 |
| Cash and cash equivalents | 184,349 | — | 184,349 |
| Trade and other payables | (104,596) | — | (104,596) |
| Provisions | (11,414) | — | (11,414) |
| Net deferred tax liability (see note 21) | — | (88,074) | (88,074) |
| | 95,281 | 223,226 | 318,507 |
| Goodwill | | | 485,728 |
| Total consideration | | | 804,235 |
| | | | |
| Satisfied by: | | | |
| Cash | | | 790,589 |
| Directly attributable costs | | | 13,646 |
| | | | 804,235 |
| | | | |
| Net cash outflow arising on acquisition | | | |
| Cash consideration, including costs of acquisition | | | 804,235 |
| Cash and cash equivalents acquired | | | (184,349) |
| | | | 619,886 |

The difference between the net cash costs set forth above and the amount of $630.0 million set forth on the Consolidated Cash Flow Statement is a combination of foreign exchange movements between acquisition date and settlement date and payments related to acquired provisions.

The goodwill arising on the acquisition of Interwoven is attributed to future operating synergies from the combination. These operational synergies are expected to arise through the following:

- cost synergies through elimination of duplicative general and administrative costs, marketing programs and other redundant costs;
- acceleration of the delivery of the next generation of unstructured information management software;
- provision of broader and more comprehensive offerings to customers; and
- additional scale and cross-selling opportunities.

# Notes to the Consolidated Financial Statements

## 24. Acquisition of Interwoven, Inc. (continued)

Had the results of Interwoven for the period from 1 January 2009 to 17 March 2009 been included in the group's results for the year ended 31 December 2009 then group net profit (adjusted) would have theoretically been decreased by $18 million.

It is not practicable to determine the effect of the Interwoven acquisition for the period from acquisition to the end of the financial period. The group's core products and those of the acquired entity have been integrated and the operations merged such that it is not practicable to determine the portion of the result that specifically relates to Interwoven on a stand-alone basis.

During the year the group used a third party specialist valuation team to determine the purchased intangibles allocation to the interwoven, Inc acquisition of $311.3 million. These assets are set out in note 13.

## 25. Notes to the Cash Flow Statement

| | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|
| Profit from operations | 272,178 | 186,493 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 16,200 | 14,095 |
| Amortization of intangible assets | 64,883 | 24,313 |
| Share based compensation | 7,173 | 5,484 |
| Foreign currency movements | (942) | (5,141) |
| Post acquisition restructuring costs | 846 | — |
| Other non-cash items | 128 | 353 |
| Operating cash flows before movements in working capital | 360,466 | 225,597 |
| Increase in receivables | (78,396) | (54,870) |
| Decrease (increase) in inventories | 235 | (154) |
| Increase in payables | 4,267 | 8,210 |
| Cash generated by operations | 286,572 | 178,783 |
| Income taxes paid | (36,551) | (32,447) |
| Net cash from operating activities | 250,021 | 146,336 |

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

## 26. Operating Lease Arrangements

| | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|
| Minimum lease payments under operating leases recognised in the income statement for the year | 17,013 | 12,192 |

At 31 December the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|
| Within one year | 16,111 | 11,506 |
| In the second to fifth years, inclusive | 32,915 | 29,033 |
| After five years | 6,198 | 7,015 |
| | 55,224 | 47,554 |

Operating lease payments represent rentals payable by the group for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years.

## 27. Share Based Payments

*a) Share based compensation*

Share based compensation charges have been charged in the income statement within the following functional areas:

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Research and development | 1,926 | 1,654 |
| Sales and marketing | 3,517 | 2,739 |
| General and administrative | 1,730 | 1,091 |
| | 7,173 | 5,484 |

*b) Equity-settled share option plans*

The group has two unapproved option plans providing employees and executives with the opportunity to acquire a proprietary interest in the company as an incentive to attract and retain the services of employees. The two plans are the UK Discretionary Option Scheme 1996 and the 2009 US Share Option Plan. Under the terms of these plans, options are granted with exercise prices not less than the fair market value of the company's shares. They become exercisable over vesting periods, with initial vesting generally after 6 or 12 months and the remainder vesting over a period of 2.5 to 3.5 years. Grants generally expire seven years from the date of grant. Vested options are exercisable following termination of employment for periods ranging from zero to 90 days.

The following tables summarize options outstanding as at 31 December:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Number | Weighted average exercise price (£) | Number | Weighted average exercise price (£) |
| Outstanding at beginning of period | 7,565,724 | 6.21 | 8,947,215 | 4.49 |
| Granted during the period | 1,524,500 | 12.35 | 2,123,243 | 9.26 |
| Acquired upon acquisition of Interwoven, Inc. | 2,172,966 | 7.58 | — | — |
| Exercised during the period | (3,192,661) | 4.90 | (2,742,324) | 3.33 |
| Expired during the period | (523,214) | 9.46 | (762,410) | 6.34 |
| Outstanding at the end of the period | 7,547,315 | 8.14 | 7,565,724 | 6.21 |
| Exercisable at the end of the period | 3,966,385 | 6.62 | 3,965,744 | 4.56 |

The weighted average share price, at the date of exercise, for share options exercised during the period was £13.32. The options outstanding at 31 December 2009 had a weighted average exercise price of £8.14 and a weighted average remaining contractual life of 5.24 years.

At the date of each grant, the fair market value of the options granted during the year were as follows:

| Date | Shares Number | Fair value of option £ |
|---|---|---|
| 26 February 2009 | 206,000 | 4.08 |
| 29 July 2009 | 1,017,000 | 4.04 |
| 12 August 2009 | 10,000 | 4.27 |
| 12 November 2009 | 291,500 | 4.93 |
| | 1,524,500 | |

*b) Equity-settled share option plans*

The assumptions for the Black-Scholes model are as follows:

| | 2009 | 2008 |
|---|---|---|
| Weighted average share price | £12.35 | £9.26 |
| Weighted average exercise price | £12.35 | £9.26 |
| Expected volatility | 48% | 40% |
| Expected life | 3 years | 3 years |
| Risk-free rate | 2.5% | 3.5% |
| Expected dividends | — | — |

## 27. Share Based Payments (continued)

Expected volatility was determined by calculating the historical volatility of the group's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

## 28. Related Party Transactions

Transactions between the company and its subsidiaries which are related parties have been eliminated on consolidation and are not disclosed in this note. Transactions between the group and its joint venture associate are disclosed below. Transactions between the company and its subsidiaries and associate are disclosed in the company's separate financial statements.

*a) Trading transactions with associate*

There have been no transactions during 2009 and there are no balances due to or from the associate at 31 December 2009 (2008: $nil).

*b) Remuneration of key management personnel*

The remuneration of the directors, who are the key management personnel of the group, is considered a "related party" transaction for purposes of IAS 24. Full details of individual directors' remuneration are given in the Remuneration Report beginning on page 31. IAS 24 *Related Party Disclosures* also requires the amounts arising in relation to equity compensation charges. The amounts charged to the income statement in relation to the directors is set out below.

| | 2009 | 2008 |
|---|---|---|
| | $'000 | $'000 |
| Share-based payment | 855 | 725 |

## 29. Financial Instruments

*a) Capital risk management*

The group manages its capital to ensure that entities in the group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the group consists of debt, which includes the borrowings disclosed in note 19, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 22 and the Consolidated Statement of Changes in Equity on page 38.

The group aims to maintain cash balances over $100 million to provide both security to customers making a significant long term investment when they acquire our software and to provide funds for potential acquisitions should the opportunity arise.

*b) Externally imposed capital requirement*

The group is not subject to externally imposed capital requirements.

*c) Significant accounting policies*

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

*d) Derivative contracts*

The group does not enter into any financial derivative contracts.

## 29. Financial Instruments (continued)

*e) Classes of financial instruments*

For the purposes of risk management, the group has identified the following classes of financial assets and liabilities:

| | | Carrying Value | |
|---|---|---|---|
| | | 2009 | 2008 |
| | Note | $'000 | $'000 |
| **Financial assets** | | | |
| Cash and cash equivalents | | 242,791 | 199,218 |
| Amounts due from customers | 16 | 251,593 | 153,553 |
| Investments in shares | 15b | 12,225 | 5,622 |
| **Financial liabilities** | | | |
| Bank loan at amortised cost | 19 | (197,527) | (37,231) |
| Trade payables | 18 | (14,926) | (12,434) |

There is no difference between the carrying value and fair value of the above financial assets and liabilities in either year.

*f) Financial risk management objectives*

The group is subject to market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The group does not use derivative financial instruments to hedge foreign currency exposures as the operating companies within the group principally generate revenues in the currencies in which they incur the majority of their expenditure. The group manages credit risk in respect of its trade receivables as set out in note 16. Liquidity risk and cash flow interest rate risk are limited as the group has no net debt. The Board review the respective risks on a quarterly basis to ensure no significant exposures exist.

*g) Market risk*

The group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The group does not use derivatives to manage the foreign currency risks due to the natural hedging that exists within the group. Interest rate risk is not considered significant as the cash balances exceed the bank loan balance.

Market risk exposures are measured using sensitivity analysis. There has been no change to the group's exposure to market risks or the manner in which it manages and measures the risk.

*h) Foreign currency risk management*

The group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise both in terms of transactional risk as well as translational risk. The group is naturally hedged, as noted above, which addresses the transactional risk. Translational risk is minimal and is not hedged by the group as the majority of the group's assets and liabilities are denominated in dollars which is also the group's presentational currency. The carrying amounts of the group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| Euro | (855) | (852) | 60,582 | 37,871 |
| US Dollar | (208,747) | (43,944) | 339,408 | 268,186 |
| Pounds Sterling | (2,766) | (4,832) | 82,310 | 47,347 |
| Other | (85) | (37) | 24,308 | 4,990 |

*i) Foreign currency sensitivity analysis*

The group is mainly exposed to movements in pound sterling, US dollar and Euro.

The following table details the group's sensitivity to a 10% increase and decrease in the functional currency of the entity concerned against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis

## 29. Financial Instruments (continued)

includes external loans as well as loans to foreign operations within the group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the Sterling strengthens 10% against the relevant currency. For a 10% weakening of the functional currency against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

| | Euro currency impact | | US dollar currency impact | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $'000 | $'000 | $'000 | $'000 |
| Profit or loss | | | | |
| - cash and cash equivalents | 3,072 | 1,025 | 4,574 | 130 |
| - amounts due from customers | 2,348 | 2,151 | 381 | 390 |
| - trade payables | 23 | 60 | 87 | 127 |

The movements above arise where entities within the group have financial assets or liabilities in currencies other than the respective functional currencies. There has not been any significant change in the group's sensitivity to foreign currency during the year.

*j) Interest rate risk management*

The group is exposed to interest rate risk as it has a floating interest rate bank loan and receives interest on its cash and cash equivalent balances. The risk is managed by the group by maintaining sufficient cash balances to offset any exposure on the bank loan. The group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

*k) Interest rate sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 0.5% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 0.5% higher/lower and all other variables were held constant, the group's:

- profit for the year ended 31 December 2009 would decrease/increase by $0.8 million (2008: decrease/increase by $0.2 million). This is mainly attributable to the group's exposure to interest rates on its variable rate borrowings; and
- other equity reserves would be unaffected by the change in either year.

The group's sensitivity to interest rates has increased during the current period due to the additional drawdown in relation to the acquisition of Interwoven, Inc. (see note 24).

*l) Other price risks*

The group is exposed to equity price risks arising from equity investments. The shares included above represent investments in listed equity securities that present the group with opportunity for return through dividend income and trading gains. Equity investments designated as available for sale are held for strategic rather than trading purposes. The group does not actively trade these investments.

*m) Equity price sensitivity analysis*

The sensitivity analysis below have been determined based on the exposure to equity price risks at the reporting date. If equity prices had been 25% higher/lower, other equity reserves would increase/decrease by $3.0 million (2008: $1.3 million) for the group as a result of the changes in fair value of available-for-sale shares. The increase compared to the prior year relates to a higher current share price combined with additional investment during the year.

The group's investment in blinkx is a strategic long term investment following the demerger and is expected to be held for the foreseeable future. Due to the early stages of this entity it is likely that there will be volatility in the share price and hence the value of this investment may vary significantly from period to period.

*n) Credit risk management*

The group is principally exposed to credit risk over its trade receivables. Details regarding the management of this risk are provided in note 16.

The group's investments in equity are in technology companies where management do not anticipate to receive dividends. No significant credit risk has been identified in relation to these investments.

# Notes to the Consolidated Financial Statements

## 29. Financial Instruments (continued)

The company does not invest funds in deposits with maturities exceeding one month and thus there is no significant price risk on cash or cash equivalents.

*o) Liquidity risk management*

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the group's short, medium and long-term funding and liquidity management requirements. The group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

*p) Liquidity and interest risk tables*

The following tables detail the group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the group can be required to pay. The table includes both interest and principal cash flows.

| | Weighted average interest rate | Less than 3 months | 3 months to 1 year | 1 to 5 years | 5+ years | Total |
|---|---|---|---|---|---|---|
| | % | $'000 | $'000 | $'000 | $'000 | $'000 |
| 2009 | | | | | | |
| Non interest bearing | | | | | | |
| - Trade payables .............. | — | 14,926 | — | — | — | 14,926 |
| - Operating leases ............ | — | 4,050 | 12,061 | 32,915 | 6,198 | 55,224 |
| Variable interest rate instruments | | | | | | |
| - Bank loan ....................... | 2.81% | 55,143 | 2,713 | 148,659 | — | 206,515 |
| | | 74,119 | 14,774 | 181,574 | 6,198 | 276,665 |
| 2008 | | | | | | |
| Non interest bearing | | | | | | |
| - Trade payables .............. | — | 12,434 | — | — | — | 12,434 |
| - Operating leases ............ | — | 2,877 | 8,629 | 29,033 | 7,015 | 47,554 |
| Variable interest rate instruments | | | | | | |
| - Bank loan ....................... | 4.40% | 3,001 | 8,862 | 28,030 | — | 39,893 |
| | | 18,312 | 17,491 | 57,063 | 7,015 | 99,881 |

*q) Fair value of financial instruments*

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of non-derivative financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. Financial assets in this category include the quoted shares held in blinkx Plc.
- The fair value of unquoted shares is determined by management by considering the underlying profitability and net assets of those investments.
- The carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

## 30. Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is set forth on page 72.

## 31. Post-Balance Sheet Events

During the first quarter of 2010 the company announced the strategic acquisition of MicroLink, LLC, a leading Autonomy reseller targeting U.S. state and federal government accounts. The acquisition was for a purchase price of $55 million in cash, after disposal of a portion of the MicroLink business prior to the transaction, and is based on a zero net working capital position. The transaction is intended to accelerate the adoption of Autonomy technology in this important and growing area of US government expenditure, allowing Autonomy to take a larger part in these contracts. The purchase price allocation, and the additional disclosures required by IFRS 3, are expected to become available in the first half of 2010.

On 10 February 2009 the company announced the launch and pricing of an offering of approximately £500 million principal amount of convertible bonds due 2015. The bonds will be convertible into ordinary shares of the company and will carry a semi-annual coupon of 3.25% per annum and an initial conversion price of £20.6334. The bonds will be issued at 100% of their principal amount and, unless previously redeemed, converted or cancelled, will mature on the fifth anniversary of the issue of the bonds in 2015. The company will have the option to call the bonds after approximately the first three years should the price of the company's ordinary shares exceed 130% of the then prevailing conversion price over a specified period. Settlement and delivery of the bonds is expected to take place on or about 4 March 2010.

# Company Only Financial Statements

## Company Balance Sheet at 31 December 2009

| | Note | 2009<br>£'000 | 2008<br>£'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 2 | 47 | — |
| Investments in subsidiary undertakings | 3 | 634,596 | 418,756 |
| Investment in associate | 4 | 5,514 | 4,107 |
| Equity and other investments | 5 | 7,453 | 3,660 |
| | | 647,610 | 426,523 |
| **Current assets** | | | |
| Trade and other receivables | 6 | 4,758 | 35,105 |
| Cash and cash equivalents | | 49,510 | 3,183 |
| | | 54,268 | 38,288 |
| Total assets | | 701,878 | 464,811 |
| **Current liabilities** | | | |
| Trade and other payables | 7 | (2,442) | (1,137) |
| Net current assets | | 51,826 | 37,151 |
| Net assets | | 699,436 | 463,674 |
| **Shareholders' equity** | | | |
| Share capital | | 803 | 720 |
| Share premium account | | 668,057 | 436,491 |
| Capital redemption reserve | | 70 | 70 |
| Merger reserve | | 13,207 | 13,207 |
| Revaluation reserve | | 2,080 | 985 |
| Own shares | | (537) | (575) |
| Retained earnings | | 15,756 | 12,776 |
| Total equity | | 699,436 | 463,674 |

The financial statements of Autonomy Corporation plc, registered number 03175909, were approved by the Board of Directors and authorised for issue on 22 February 2010. They were signed on its behalf by:

Dr. Michael R. Lynch
Chief Executive Officer and Co-Founder
22 February 2010

# Company Only Financial Statements

## Company Statement of Changes in Equity for the year ended 31 December 2009

| | Share capital | Share capital | Share premium | Capital redemption reserve | Sub-total |
|---|---|---|---|---|---|
| | (number) | £'000 | £'000 | £'000 | £'000 |
| At 1 January 2008 | 213,066,320 | 711 | 427,332 | 70 | 428,113 |
| Net profit | — | — | — | — | — |
| Other comprehensive loss | — | — | — | — | — |
| EBT movement | — | — | — | — | — |
| Shares options exercised | 2,750,877 | 9 | 9,159 | — | 9,168 |
| At 31 December 2008 | 215,817,197 | 720 | 436,491 | 70 | 437,281 |
| Net profit | — | — | — | — | — |
| Other comprehensive income | — | — | — | — | — |
| EBT movement | — | — | — | — | — |
| Shares issued | 21,560,620 | 72 | 215,900 | — | 215,972 |
| Shares options exercised | 3,196,487 | 11 | 15,666 | — | 15,677 |
| At 31 December 2009 | 240,574,304 | 803 | 668,057 | 70 | 668,930 |

| | Sub-total forwarded | Merger reserve | Revaluation reserve | Own shares | Retained earnings | Total |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| At 1 January 2008 | 428,113 | 13,207 | 5,186 | (622) | 12,652 | 458,536 |
| Net profit | — | — | — | — | 124 | 124 |
| Other comprehensive loss | — | — | (4,201) | — | — | (4,201) |
| EBT movement | — | — | — | 47 | — | 47 |
| Shares options exercised | 9,168 | — | — | — | — | 9,168 |
| At 31 December 2008 | 437,281 | 13,207 | 985 | (575) | 12,776 | 463,674 |
| Net profit | — | — | — | — | 2,980 | 2,980 |
| Other comprehensive income | — | — | 1,095 | — | — | 1,095 |
| EBT movement | — | — | — | 38 | — | 38 |
| Shares issued | 215,972 | — | — | — | — | 215,972 |
| Shares options exercised | 15,677 | — | — | — | — | 15,677 |
| At 31 December 2009 | 668,930 | 13,207 | 2,080 | (537) | 15,756 | 699,436 |

## Company Statement of Comprehensive Income for the year ended 31 December 2009

| | 2009 | 2008 |
|---|---|---|
| | £'000 | £'000 |
| Net profit | 2,980 | 124 |
| Revaluation of equity investment, being total other comprehensive income | 1,095 | (4,201) |
| Total comprehensive income (loss) | 4,075 | (4,077) |

Under IAS1 (revised) the company has included a statement of comprehensive income for the years ended 31 December 2008 and 2009. This revision has no impact on the balance sheets for 2009, 2008 or 2007. The 2007 balance sheet is available in the 2008 annual report which is available on the company's website, www.autonomy.com.

# Company Only Financial Statements

## Company Cash Flow Statement for the year ended 31 December 2009

| | 2009<br>£'000 | 2008<br>£'000 |
|---|---|---|
| Net cash from (used in) operating activities | 10,307 | (35,286) |
| Investing activities | | |
| Interest received | 45 | 752 |
| Purchases of intangible assets | (47) | — |
| Investment in associate and joint venture | (1,407) | (1,183) |
| Purchases of investments | (2,698) | (19) |
| Investment in subsidiaries | (215,839) | (2,636) |
| Net cash used in investing activities | (219,946) | (3,086) |
| Financing activities | | |
| Shares issued | 215,972 | — |
| Proceeds from issuance of shares | 40,005 | 24,966 |
| Interest paid | (11) | — |
| Net cash from financing activities | 255,966 | 24,966 |
| Net increase (decrease) in cash and cash equivalents | 46,327 | (13,406) |
| Cash and cash equivalents at beginning of year | 3,183 | 16,589 |
| Cash and cash equivalents at end of year | 49,510 | 3,183 |

Cash and cash equivalents represent cash and short-term deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

Note to the Cash Flow Statement

| | 2009<br>£'000 | 2008<br>£'000 |
|---|---|---|
| Profit (loss) from operations | 3,789 | (590) |
| Operating cash flows before movements in working capital | 3,789 | (590) |
| Increase (decrease) in intercompany balances | 5,139 | (34,739) |
| Decrease (increase) in receivables | 780 | (93) |
| Increase in payables | 747 | 136 |
| Cash generated (reduced) by operations | 10,455 | (35,286) |
| Tax paid | (148) | — |
| Net cash from (used in) operating activities | 10,307 | (35,286) |

# Notes to the Company Only Financial Statements

## 1. Significant Accounting Policies

As permitted by section 408 of the Companies Act 2006, the income statement of the company only is not presented as part of this annual report. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards. The company has no employees other than the four non-executive directors (2008: three). Their remuneration is shown in the group's remuneration report.

The financial statements of the company have been prepared on the historical cost basis, except for the revaluation of equity investments. The principal accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements except as noted below.

*Investments in subsidiaries*

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

These company financial statements are presented in sterling as that is the currency of the primary economic environment in which the company operates.

## 2. Intangible Assets

| | Software licenses | Patents | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Cost | | | |
| At 1 January 2008 and 2009 | 3,147 | 104 | 3,251 |
| Additions | — | 47 | 47 |
| At 31 December 2009 | 3,147 | 151 | 3,298 |
| Amortization | | | |
| At 1 January 2008 and 2009 and 31 December 2009 | 3,147 | 104 | 3,251 |
| Carrying amount | | | |
| At 31 December 2009 | — | 47 | 47 |
| At 31 December 2008 | — | — | — |

At 31 December 2009 the group had no contractual commitments for the acquisition of intangible assets (2008: $Nil).

## 3. Investments in Subsidiary Undertakings

The company has investments in the subsidiaries listed on page 72 which principally affected the profits or net assets of the group.

| | £'000 |
|---|---|
| Cost | |
| At 1 January 2008 | 256,316 |
| Additions | 410 |
| Other movements | (4,830) |
| Reclassification of intercompany balance | 166,860 |
| At 1 January 2009 | 418,756 |
| Additions | 215,840 |
| At 31 December 2009 | 634,596 |

During 2008 a loan to a subsidiary was converted into equity of that entity and the corresponding balance transferred from intercompany receivable to investment in subsidiaries. The addition in 2009 relates to the Interwoven acquisition.

## 4. Investment in Associate

During the year the company invested an additional £1.4 million as part of its Chinese associate operations.

# Notes to the Company Only Financial Statements

## 5. Equity and Other Investments

| | 2009 | 2008 |
|---|---|---|
| | £'000 | £'000 |
| Available for sale investment carried at fair value | 7,453 | 3,660 |

The investment above represents the company's 14% interest in blinkx Plc following the demerger in May 2007. See note 15b of the group accounts for additional information.

## 6. Trade and Other Receivables

| | 2009 | 2008 |
|---|---|---|
| | £'000 | £'000 |
| Amounts owed by subsidiary undertakings | 4,521 | 34,088 |
| Other receivables | 237 | 1,017 |
| | 4,758 | 35,105 |

Amounts owed by subsidiary undertakings
At the balance sheet date amounts receivable from the fellow group companies were $4.5 million (2008: $34.1 million). The carrying amount of these assets approximates their fair value. There are no past due or impaired receivable balances (2008: nil).

## 7. Trade and Other Payables

| | 2009 | 2008 |
|---|---|---|
| | £'000 | £'000 |
| Trade payables | 959 | 664 |
| Other payables | 850 | 398 |
| Tax liabilities | 633 | 75 |
| | 2,442 | 1,137 |

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

## 8. Related Party Transactions

During the year the company had no license fee related expenditures (2008: £nil).

All transactions are conducted on an arm's length basis and the amount owed by subsidiary undertakings is disclosed in note 6.

## 9. Financial Instruments

The policies of the group are discussed in note 29 to the consolidated financial statements. The tables below provide the financial instruments disclosures for the company.

*a) Classes of financial instruments*

For the purposes of risk management, the company has identified the following classes of financial assets and liabilities:

| | | Carrying Value | |
|---|---|---|---|
| | | 2009 | 2008 |
| | Note | £'000 | £'000 |
| Financial assets | | | |
| Cash and cash equivalents | | 49,510 | 3,183 |
| Investments in shares | 5 | 7,453 | 3,660 |
| Amounts owed by subsidiary undertakings | 6 | 4,521 | 34,088 |
| Financial liabilities | | | |
| Trade payables | 7 | (959) | (664) |

There is no difference between the carrying value and fair value of the above financial assets and liabilities in either year.

# Notes to the Company Only Financial Statements

## 9. Financial Instruments (continued)

*b) Foreign currency risk management*

The carrying amounts of the company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | £'000 | £'000 | £'000 | £'000 |
| US Dollar | (14) | (226) | 20,954 | 30 |
| Euro | (6) | — | 7,199 | — |
| Pounds Sterling | (939) | (438) | 33,331 | 40,901 |

*c) Foreign currency sensitivity analysis*

The company is mainly exposed to movements in US dollar.

The following table details the company's sensitivity to a 10% increase and decrease in the functional currency of the entity concerned against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the company where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the Sterling strengthens 10% against the relevant currency. For a 10% weakening of the functional currency against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

| | US dollar currency impact | |
|---|---|---|
| | 2009 | 2008 |
| | £'000 | £'000 |
| Profit or loss | | |
| - cash and cash equivalents | 2,095 | 43 |
| - trade payables | 31 | 17 |

The movements above arise where the company has financial assets or liabilities in currencies other than Sterling. There has not been any significant change in the company's sensitivity to foreign currency during the year.

*d) Other price risks*

The company is exposed to equity price risks arising from equity investments. The shares included above represent investments in listed equity securities that present the company with opportunity for return through dividend income and trading gains. Equity investments designated as available for sale are held for strategic rather than trading purposes. The company does not actively trade these investments.

*e) Equity price sensitivity analysis*

The sensitivity analysis below have been determined based on the exposure to equity price risks at the reporting date. If equity prices had been 25% higher/lower other equity reserves would increase/decrease by £1.9 million (2008: £0.9 million) for the company as a result of the changes in fair value of available-for-sale shares.

The company's investment in blinkx is a strategic long term investment following the demerger and is expected to be held for the foreseeable future. Due to the early stages of this entity it is likely that there will be volatility in the share price and hence the value of this investment may vary significantly from period to period.

# Notes to the Company Only Financial Statements

## 9. Financial Instruments (continued)

*f) Liquidity and interest risk tables*

The following tables detail the company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the company can be required to pay. The table includes both interest and principal cash flows.

| | Less than 3 months | 3 months to 1 year | 1 to 5 years | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| 2009 | | | | |
| Non interest bearing | | | | |
| - Trade payables | 959 | — | — | 959 |
| 2008 | | | | |
| Non interest bearing | | | | |
| - Trade payables | 664 | — | — | 664 |

*g) Fair value of financial instruments*

The fair values of financial assets and financial liabilities are determined as follows.

The fair value of non-derivative financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. Financial assets in this category include the quoted shares held in blinkx Plc.

The carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

# Additional Information

## Principal Group Companies

The principal companies within the group's operations are set forth below.

| Company | Country of Operation | Function |
|---|---|---|
| Autonomy Corporation plc | England | Holding company |
| Autonomy, Inc. | USA | Software development and distribution |
| Autonomy Systems Ltd | England | Software development and distribution |
| Autonomy Nordic AS | Norway | Sub licensing |
| etalk Corporation | USA | Software development and distribution |
| Interwoven, Inc. | USA | Software development and distribution |
| Meridio Holdings Limited | Northern Ireland | Software development and distribution |
| Virage, Inc. | USA | Software development and distribution |
| ZANTAZ, Inc. | USA | Software development and distribution |

Operating subsidiaries of the above companies have been excluded to the extent such subsidiaries' operations are consolidated in the interim operating companies operations and results. These include operating subsidiaries, providing marketing sales and support to the group, in the following countries: Australia; Belgium; Canada; China; France; Germany; Hong Kong; India; Italy; Japan; Korea; Luxembourg; Mexico; Netherlands; Singapore; South Africa; Spain; Sweden; and the U.K. All of the above entities are 100% owned.

### Joint Ventures and Associates

| Company | Country of Incorporation | Holding |
|---|---|---|
| OpenV China Holdings Company | Cayman Islands | 40% |

## Registrars and Transfer Office

If shareholders have any inquiries about their holding of ordinary shares, such as a change of address, change of ownership or lost share certificates, they should contact the Company's registrars at the address or telephone number below. Computershare Investor Services PLC maintain the Autonomy Corporation plc share register and holders of ordinary shares may view and update details of their shareholding via the registrars' investor centre at www.computershare.com/uk/investorcentre.

Computershare Investor Services PLC
PO Box 82, The Pavilions
Bridgwater Road, Bristol BS99 7NH, UK
Telephone: +44 870 702 0000
email: web.queries@computershare.co.uk

## Stock Exchanges

Autonomy's ordinary shares are listed on the London Stock Exchange under the symbol "AU.". Autonomy does not maintain listings on any other stock exchanges.

## Shareholder Communications

The company provides a number of shareholder services online at http://www.autonomy.com/content/Investors, where shareholders may:

- register to receive electronic shareholder communications;
- listen to live and recoded webcasts of investor conference calls;
- view and/or download annual reports and interim financial reports; and
- check the current share price.

Shareholders and other interested parties can also receive company press releases, including London Stock Exchange announcements, by registering for Autonomy news via the company's website at www.autonomy.com. Registering for Autonomy news will enable users to have news automatically e-mailed to them.

Topics featured in this Annual Report can be found via the Autonomy home page on the Internet (http://www.autonomy.com). Financial results, news on Autonomy products, services and other activities can also be found via that address. Autonomy's Investor Relations Department can be reached on +44 1223 448 000 or at investor_relations@autonomy.com.

## Advisors

| Auditors | Stockbrokers | Stockbrokers |
|---|---|---|
| Deloitte LLP | UBS Warburg | Citigroup Global Markets Limited |
| 126-130 Hills Road | 1/2 Finsbury Avenue | Canada Square |
| Cambridge CB2 1RY | London EC2N 2PP | London E14 5LB |

| Investor Relations | Registered Office |
|---|---|
| Financial Dynamics Ltd. | Cambridge Business Park |
| 26 Southampton Buildings | Cowley Road |
| London WC2A 1PB | Cambridge CB4 0WZ |

# Forward-Looking Statements

This document contains “forward-looking statements” within the meaning of the US Private Securities Litigation Reform Act of 1995 with respect to the group’s financial condition, results of operations and businesses and certain of the group’s plans and objectives.

In particular, such forward-looking statements include statements with respect to:

- the group’s expectations regarding its financial and operating performance, including statements contained within the Chairman’s Statement and the Chief Executive’s review;
- intentions and expectations regarding the development of products, services and initiatives;
- expectations regarding the global economy and the group’s operating environment, including future market conditions and trends;
- possible future acquisitions, including the timely completion of acquisition transactions; and
- expectations regarding the group’s future operating results.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as “anticipates”, “aims”, “could”, “may”, “should”, “expects”, “believes”, “intends”, “plans” or “targets”. By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, the following:

- general economic and political conditions in the jurisdictions in which the group operates and changes to the associated legal, regulatory and tax environments;
- increased competition, from both existing competitors and new market entrants;
- levels of research and development investment and the group’s ability to deploy new technologies, products and services in a timely manner;
- rapid changes to existing products and the inability of new products to perform in accordance with expectations;
- the ability of the group to integrate new technologies;
- the group’s ability to generate and grow revenue;
- a lower than expected impact of new or existing products, services or technologies on the group’s future revenue, cost structure and capital expenditure outlays;
- slower than expected customer growth, reduced customer retention, reductions or changes in customer spending and increased pricing pressure;
- the group’s ability to realise expected benefits from acquisitions, partnerships or other arrangements with third parties;
- acquisitions and divestments of group businesses and assets and the pursuit of new, unexpected strategic opportunities which may have a negative impact on the group’s financial condition and results of operations;
- the group’s ability to integrate acquired business or assets and the imposition of any unfavourable conditions, regulatory or otherwise, on any pending or future acquisitions or dispositions;
- the extent of any future write-downs or impairment charges on the group’s assets, or restructuring charges incurred as a result of an acquisition or disposition;
- changes in exchange rates, including particularly the exchange rate of pounds sterling to the euro and the US dollar;
- changes in the regulatory framework in which the group operates;
- the impact of legal or other proceedings; and
- changes in statutory tax rates and profit mix, the group’s ability to resolve tax issues which may arise and the timing and amount of any payments in respect of tax liabilities.

All subsequent written or oral forward-looking statements attributable to the company or any member of the group or any persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. No assurances can be given that the forward-looking statements in this document will be realised. Subject to compliance with applicable law and regulations, Autonomy does not intend to update these forward-looking statements and does not undertake any obligation to do so.

Registered in England 03175909

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